

**Budgeting, Accounting and Reporting System (BARS)**

# **GAAP**

**(GAAP Manual Part 1: Charts of Accounts, Budgeting and Accounting Sections)**

**For Cities, Counties and Special Purpose Districts**



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- The BARS manuals are updated online frequently.
- For reporting purposes, please refer to the latest version online at <https://dev-sao-sao-wp.pantheonsite.io/bars-annual-filing/bars-gaap-manual/>.
- Note that PDF versions of the BARS manuals do not include the BARS Account Codes.

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## Charts of Accounts

### BARS Account Export

#### BARS Account Export

#### Select a government type/Select basis of accounting

This government type selection will limit the accounts to those applicable to the selected government type. Although the listing provided intends to be all inclusive, it is possible that needed

account codes will not be included. If this occurs, please use the *All* option to view the entire chart of accounts and contact [LGCSFeedback@sao.wa.gov](mailto:LGCSFeedback@sao.wa.gov) so the listing can be updated.

### **Select export type**

The Excel option provides a spreadsheet which you can format. The PDF is formatted to highlight the different categories of account codes. For display purposes, the account codes contain decimal points which should be excluded in your annual report.

### **Select a reporting level**

*Above and Prescribed* option includes those accounts which are aggregates of detailed account codes and are not valid for reporting in addition to *Prescribed* accounts which are the valid BARS account codes. *Prescribed* option only lists valid BARS account codes.

Your annual report requires seven digits for all account codes however, their display in the chart of accounts varies. The expenditure or expense accounts are presented in the export without object codes. Object codes are available in the [BARS Manual](#). The reporting at the subobject level is not required.



# Object Codes

## Object Codes

Reminder: Object 50, *Intergovernmental Services and Payments* is invalid for reports starting year 2019 and thereafter. The listing below contains new definitions for Objects 30 and 40 which are applicable to coding of your 2019 expenditures. Please review the definitions to ensure their proper application.

### 1.4 Object Codes

#### 00 Depreciation, Amortization, Other Decreases in Fund Resources and Transfers-Out

Use this category of object only with the accounts 501, 581, 582, 585, 586, 588, 589, and 597

#### 10 Salaries and Wages

Amounts paid for personal services rendered by employees in accordance with the rates, hours, terms and conditions authorized by law or stated in employment contracts. This category also includes overtime, hazardous duty or other compensation construed to be salaries and wages. Subdivide this account as necessary for local purposes (i.e., regular pay, overtime pay, sick pay (employee related), sick pay (non-employee related), vacation pay, shift differential, and other taxable compensation).

Personal services do not include fees and out-of-pocket expenditures for professional or consultant services performed on assignments. Such services are properly classified as Services.

#### 20 Personnel Benefits

Those benefits paid by the employer as part of the conditions of current or past employment. Subdivide as needed for local purposes. Example: insurance, unemployment compensation, OASI (FICA) - employer-paid portion, uniforms, pension, and workers' compensation. Payments by self-insurance and trust funds to retired or disabled employees or their beneficiaries, employer payments to pension systems and to state agencies for unemployment and disability insurance. Use object 40 for payments from self-insurance funds for property and liability claims.

#### 30 Supplies for Consumption and Resale

Include:

- items purchased for consumption (e.g., office supplies, forms, agricultural supplies, chemicals, laboratory supplies, cleaning supplies, clothing, construction materials, drugs, electrical supplies, feed for animals, household supplies, lubricants, medicines, painting and plumbing supplies, books, publications, etc.);
- items purchased for resale (e.g., automotive repair parts, grave markers and liners, central

store merchandise, maps, code books, concession supplies, fuel, trees, books and other literary materials, office supplies, forms, agricultural supplies, chemicals, laboratory supplies, cleaning supplies, clothing, construction materials, drugs, electrical supplies, feed for animals, household supplies, lubricants, medicines, painting and plumbing supplies, books, publications, etc.); also power, gas, water and waste disposal services purchased for resale only - if purchased for the governments' own consumption, use object 40;

- fuel used to generate power, heating, and operate engines and vehicles (e.g., coal, diesel fuel, gasoline, oil, propane gas, wood, etc.);
- small tools and minor equipment.

#### 40 Services and Pass-Through Payments

Use this object for governmental type and other professional and technical services provided by other governments (federal, state, local), other funds, or by private entities.

Include:

- professional services (e.g., accounting, auditing, advertising, computer services, medical, dental and hospital, management consulting, custodial, messenger, testing, monitoring, cleaning, engineering, architectural, legal, investment services, etc.);
- communication (e.g., postage, internet, telephone, facsimile, shipping, etc.);
- travel (e.g., mileage, lodging, meals, etc.);
- taxes (e.g., sales and use, B&O tax, etc.) and operating assessments (i.e., payments to other governments or funds based on levies against property or income of the government or a fund);
- permits, licenses, accreditation, certification and other fees which are necessary for operations paid to the federal, state or local governments (e.g., survey fees, laboratory accreditation fees, disposal fees, discharge permits, biosolid permits, FERC licenses, etc.);
- operating rentals and leases (GAAP entities should use object 60 for capital leases; cash basis entities should use object 70 for the principal payments and object 80 for interest payments on capital leases);
- insurance (e.g., liability, theft, bonds, casualty, etc.; however use object 20 for insurance applicable to personnel benefits);
- utility services (e.g., water, sewer, gas, electricity, waste disposal, television, etc.; however use object 30 for power, gas or water purchased for resale);
- contracted repairs and maintenance (use object 60 for construction contracts);
- other (e.g., court costs, investigation, judgments, damages, dues, subscriptions, memberships, registrations, information and credit services, laundry and sanitation services, filing, recording, witness fees, printing, binding, tuition, etc.).

Also include eligible intergovernmental **pass-through** payments, contributions and grants from federal, state, and own or other local resources to other governments or nongovernmental entities.

#### 60 Capital Outlays

Expenditures related to purchase or construction of assets considered capital according to the government capitalization threshold policy. This object should be used only with accounts 594 and 595.

Include expenditures related to acquisition of, rights to, or additions to capital assets, including incidental costs such as legal, appraisal and brokerage fees, land preparation and demolishing buildings, fixtures and delivery costs. This category of object includes purchases and construction of major capital assets which are purchased or constructed by the external party. Those constructed or fabricated by the municipality should be classified under other object classes; i.e., wages under Salaries and Wages, materials under Supplies, etc. Exclude small tools and minor equipment (use object 30).

Include land, land and other improvements (e.g., easements, site improvements such as excavation, fill, grading, utility installation, removal, relocation or reconstruction of property, retaining walls, fencing, landscaping, land acquisition costs and related expenditures, intangible rights to land, etc.); acquisition, construction and improvements of buildings (e.g., administrative and office buildings, garage, shops, firehouses, jails, libraries, zoos, park buildings, coastal and riverine structures, alleys, athletic fields, water/sewer systems, fuel depots, dikes, levees, signs and signals, landscape and vegetation, etc.); machinery and equipment (e.g., police dogs and horses, computer software/hardware, artwork, etc.); assets acquired under executory conditional sales contracts (RCW [39.30.010](#)), lease-purchase agreements, installment purchase agreements, and similar arrangements that defer payment for capital outlays over a period of time (GAAP only; cash basis governments should use 594PP70 (principal) and 594PP80 (interest) for capital lease payments.

### **70 Debt Service - Principal**

Use with codes 591, 593, 594 (cash basis only), 596 and 599. Include general obligation, revenue, special assessment bonds, capital leases, installment purchases, anticipation and other notes, anticipation warrants, contracts, intergovernmental loans, other debt, LOCAL program payments, etc.

### **80 Debt Service - Interest and Issuance Costs**

Use with codes 592, 593, 594 (cash basis only) and 599. Include interest on short and long-term external debt, interest on interfund debt, interests on debt to joint ventures and affiliates, LID assessments, interest on intergovernmental debt, leases, interest paid on overdue taxes (RCW 84.69.070), debt issuance and other debt service costs.

# Revenue/Expenditures/Expense Accounts Overview

## Revenue/Expenditure Accounts Overview

### CHARTS OF ACCOUNTS

#### 1.3 Revenue/Expenditure Accounts Overview

1.3.10 The overview includes the major categories of revenues and expenditures. For the full listing of all revenue and expenditure codes go to [BARS Account Export](#).

#### Revenues by Source

310	TAXES
320	LICENSES and PERMITS
330	INTERGOVERNMENTAL REVENUES
340	CHARGES for GOODS and SERVICES
350	FINES and PENALTIES
360	MISCELLANEOUS REVENUES
380	OTHER INCREASES IN FUND RESOURCES
390	OTHER FINANCING SOURCES

#### Revenues by Source and Type

<b>310</b>		<b>TAXES</b>
	311	Property Tax
	313	Retail Sales and Use Taxes
	316	Business and Occupation Taxes
	317	Excise Taxes in Lieu of Property Tax
	318	Other Taxes
<b>320</b>		<b>LICENSES and PERMITS</b>
	321	Business Licenses and Permits
	322	Non-Business Licenses and Permits
<b>330</b>		<b>INTERGOVERNMENTAL REVENUES</b>
	331	Federal Direct Grants
	332	Federal Revenues
	333	Federal Indirect Grants
	334	State Grants

	335-336	State Shared Revenues, Entitlements and Impact Payments
	337	Local Grants, Entitlements and Other Payments
<b>340</b>		<b>CHARGES for GOODS and SERVICES</b>
	341	General Government
	342	Public Safety
	343	Utilities
	344	Transportation
	345	Natural and Economic Environment
	346	Social Services
	347	Culture and Recreation
	348	Internal Service Funds Sales and Services
<b>350</b>		<b>FINES and PENALTIES</b>
	351	Superior Court - Felony/Misdemeanor Penalties
	352	Civil Penalties
	353	Civil Infraction Penalties
	354	Civil Parking Infraction Penalties
	355	Criminal Traffic Misdemeanor Fines
	356	Criminal Non-Traffic Fines
	357	Criminal Costs
	359	Non-Court Fines and Penalties
<b>360</b>		<b>MISCELLANEOUS REVENUES</b>
	361	Interest and Other Earnings
	362	Rents and Leases
	367	Contributions and Donations from Nongovernmental Sources
	368	Special Assessments
	369	Other
<b>370</b>		<b>PROPRIETARY FUNDS REVENUES</b>
	371	Share in Joint Ventures Income
	372	Insurance Recoveries
	373	Gains (Losses)
	374 - 375	Capital Contributions - Federal/State Grants
	379	Capital Contributions
<b>380</b>		<b>OTHER INCREASES IN FUND RESOURCES</b>
	381	Interfund Loans
	382	Deposits

	385	Special or Extraordinary Items
	388	Other Increases in Fund Equity
	389	Custodial Activities
<b>390</b>		<b>OTHER FINANCING SOURCES</b>
	391	Long-Term Debt Issued
	392	Premiums on Bonds Issued
	393	Refunding Long-Term Debt Issued
	395	Disposition of Capital Assets
	397	Transfers-In
	398	Insurance Recoveries

### Expenditures/Expenses by Function

510	GENERAL GOVERNMENT
520	PUBLIC SAFETY
530	UTILITIES
540	TRANSPORTATION
550	NATURAL and ECONOMIC ENVIRONMENT
560	SOCIAL SERVICES
570	CULTURE and RECREATION
580	OTHER DECREASES IN FUND RESOURCES
591*-593*	DEBT SERVICE
594*-595*	CAPITAL EXPENDITURES
596*, 597, 599*	OTHER FINANCING USES
	* These codes are listed together with appropriate operating activities.

### Expenditures/Expenses by Function and Activity

<b>510</b>		<b>GENERAL GOVERNMENT</b>
	511	Legislative Activities
	512	Judicial Activities
	513	Executive Activities
	514	Financial, Recording and Election Activities
	515	Legal Activities
	517	Employee Benefit Programs
	518	Centralized Services

	519	Risk Management Services
<b>520</b>		<b>PUBLIC SAFETY</b>
	521	Law Enforcement Activities
	522	Fire and Emergency Medical Activities
	523	Detention/Correction Activities
	524	Protective Inspection Services
	525	Disaster Services
	527	Juvenile Services
	528	Dispatch Services
<b>530</b>		<b>UTILITIES</b>
	531	Storm Drainage Utilities
	532	Television/Cable/Internet Utilities
	533	Electric/Gas Utilities
	534	Water Utilities
	535	Sewer/Reclaimed Water Utilities
	536	Sewer/Reclaimed Water Utilities
	537	Solid Waste Utilities
	538	Combined Utilities
	539	Irrigation/Reclamation Utilities
<b>540</b>		<b>TRANSPORTATION</b>
	541	Roads/Streets Construction - Preservation Projects
	542	Roads/Streets Maintenance
	543	Roads/Streets General Administration and Overhead
	544	Roads/Streets Operations
	545	Roads/Streets Extraordinary Operations
	595	Roads/Streets and Other Infrastructure: Improvements and New Construction Projects
	546	Airports and Ports
	547	Transit, Railroads and Other Transportation Systems
	548	Public Works - Centralized Services
<b>550</b>		<b>NATURAL and ECONOMIC ENVIRONMENT</b>
	551	Public Housing Services
	552	Employment Opportunity
	553	Conservation
	554	Environmental Services
	557	Community Services

	558	Community Planning and Economic Development
	559	Property Development
<b>560</b>		<b>SOCIAL SERVICES</b>
	561	Hospitals, Assisted Living and Convalescent Facilities
	562	Public Health Services
	563	Coroner/Medical Examiner
	564	Mental Health Services
	565	Welfare/Veterans Services/Services for Disabled/Homeless Services/Domestic Violence
	566	Chemical Dependency Services
	567	Children Services
	568	Developmental Disabilities Services
	569	Aging and Disability Services
<b>570</b>		<b>CULTURE and RECREATION</b>
	571	Educational and Recreational Activities
	572	Libraries
	573	Cultural and Community Activities
	575	Cultural and Recreational Facilities
	576	Park Facilities
<b>598</b>		<b>MISCELLANEOUS EXPENSES</b>
<b>580</b>		<b>OTHER DECREASES IN FUND RESOURCES</b>
	582	Refunds of Deposits
	588	Prior Period(s) Adjustment(s)
	589	Custodial Activities
<b>591-593</b>		<b>DEBT SERVICE</b>
	591	Redemption of Debt
	592	Interest and Other Debt Service Costs
	593	Advance Refunding Escrow
<b>594-595</b>		<b>CAPITAL EXPENDITURES/EXPENSES</b>
	594	Capital Expenditures
	595	Roads/Streets and Other Infrastructure: Improvements and New Construction Projects
<b>596, 597, 599</b>		<b>OTHER FINANCING USES</b>
	596	Issuance Discount on Long-Term Debt



	597	Transfers-Out
	599	Payments for Refunded Debt

### Balance Sheet Codes for Schedule 01 Reporting

<b>300</b>		<b>FUND BALANCE/NET POSITION - BEGINNING</b>
	308	Fund Balance/Net Position - Beginning
<b>800</b>		<b>ASSETS/DEFERRED OUTFLOWS/LIABILITIES/DEFERRED INFLOW</b>
	810	Cash, Cash Equivalents and Investments
	820	Other Current Assets
	830	Other Noncurrent Assets
	840	Deferred Outflows
	850	Current Liabilities
	860	Noncurrent Liabilities
	870	Deferred Inflows
<b>500</b>		<b>FUND BALANCE/NET POSITION - END</b>
	508	Fund Balance/Net Position - Ending

### EXPENDITURES/EXPENSES by FOURTH and FIFTH DIGIT

**Use this table only with accounts beginning with 591-594, 596 and 599.**

<b>General Government</b>
11 Legislative Activities
12 Judicial Activities
13 Executive Activities
14 Financial, Recording and Election Activities
15 Legal Activities
17 Employee Benefit Programs
18 Centralized/General Services
19 Risk Management Services
<b>Public Safety</b>
21 Law Enforcement Activities
22 Fire and Emergency Medical Activities
23 Detention/Correction Activities
24 Protective Inspections Services

25 Disaster Services
27 Juvenile Services
28 Dispatch Services
<b>Utilities</b>
31 Storm Drainage Utilities
32 Television/Cable/Internet Utilities
33 Electric/Gas Utilities
34 Water Utilities
35 Sewer/Reclaimed Water Utilities
36 Cemetery
37 Solid Waste Utilities
38 Combined Utilities
39 Irrigation/Reclamation Utilities
<b>Transportation</b>
41 Roads/Streets Construction-Preservation Projects
42 Roads/Streets Ordinary Maintenance
43 Roads/Streets General Administration and Overhead
44 Roads/Streets Operations
45 Roads/Streets Extraordinary Operations
95 Roads/Streets and Other Infrastructure
46 Airports/Ports
47 Transit/Railroads and Other Transportation Systems
48 Public Works-Centralized Services
<b>Natural and Economic Environment</b>
51 Public Housing Services
52 Employment Opportunity
53 Conservation
54 Environmental Services
57 Community Services
58 Community Planning and Economic Development
59 Property Development
<b>Social Services</b>
61 Hospitals, Assisted Living, and Convalescent Facilities

62 Public Health Services
63 Coroner/Medical Examiner
64 Mental Health Services
65 Other Social Services
66 Chemical Dependency Services
67 Children Services
68 Developmental Disabilities Services
69 Aging and Disability Services
<b>Culture and Recreation</b>
71 Educational and Recreational Activities
72 Libraries
73 Cultural and Community Activities
75 Cultural and Recreational Facilities
76 Park Facilities

## Determining Operating/Nonoperating Revenues/Expenses in Propriety Funds

### Determining Operating/Nonoperating Revenues/Expenses in Proprietary Funds

#### 1.5 Determining Operating/Nonoperating Revenues/Expenses in Proprietary Funds

1.5.10 The disclosed [matrix](#) identifies each BARS revenue account as an operating or nonoperating revenue or expense. Some BARS accounts can be in either category and, in such cases, the first column is blank. The BARS codes not listed in the matrix are considered nonoperating. The governments may use the matrix as a [guide](#) for the preparation of their statement of revenues, expenses and changes in net position (operating statements).

1.5.20 Because operating revenues/expenses are not authoritatively defined in the accounting literature, there is no assurance that the usage of these term is standardized. Since the State Auditor's Office is required to provide comparative statistics for all local governments, the Office made some decisions which are based on a reasonable extension of existing standards that do not have direct citations in GAAP literature.

1.5.30 [GASB Statement 34, Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments, paragraph 436, paragraph 436](#), states that there are two criteria to consider when defining revenues and expenses as operating: (1) does the revenue/expense result from the fund's **principal purpose**, and (2) is the revenue/expense allowed to be considered operating on the statement of cash flows [again, this is a guideline, not a requirement].

1.5.40 The operating nature of revenue is derived **from the source** of the revenue **not its purpose**. The fact that the revenue supports the operations does not impact its classification which again refers to the revenue origin.

1.5.50 [GASB Statement 34](#), paragraph 100 requires proprietary fund revenues to be reported by major source (net of discounts and allowances). Paragraph 100, further requires proprietary to distinguish between operating and nonoperating revenues and expenses.

1.5.60 The objective of the distinction of nonoperating and operating is to display the extent to which operating expenses are covered by revenues generated by principal ongoing operations ([2013-2014 Comprehensive Implementation Guide, Question 7.73.4](#)). For example, interest is operating revenue if the principal activity of the fund is to provide loans to generate income. The ongoing principal operation is determined by the purpose of the individual enterprise fund.

1.5.70 GASB Statement 34, paragraph 102, indicates that one consideration for defining operating revenues and expenses is how individual transactions would be categorized for cash flows from operating activities in the cash flows statement. Operating revenues are generally those that enter into the determination of the operating income. This is a guideline, not a requirement. [See

reference to footnote 42 on page 36, after paragraph 104 of [GASB Statement 34](#).]

1.5.80 According to the [GASB Statement 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting](#) operating cash flows category would exclude most revenues that considered to be non-exchange and exchange-like transactions and financing and investment-related revenues/expenses, including:

- Operating grants and contributions (both received and made) and grants and contributions that are not restricted to either operating or capital. Capital grants are always excluded. [Grants that are essentially the same as a contract for services, however, may be reported as an operating activity.]
- Exchange-like transaction revenues, such as passenger facility charges, certain tap fees, certain developer contributions and certain grants when restricted for capital or non-capital financing purposes.
- Property or other tax revenues.
- Gains or losses on sales of capital assets.
- Interest and dividends and realized and unrealized gains and losses on investments.
- Interest expense, including premium or discount amortization on debt and debt issue expense.

1.5.90 Generally governments should record the following proprietary fund operating revenues:

- Charges for services/goods (340);
- Fees related directly to their principal operations (e.g., connection fees if offset by current period expenses, i.e., not capitalized, etc.);
- Miscellaneous revenues provided they are operating revenues (i.e., directly related to principal operations).

#### 1.5.100 **Taxes (310)**

GAAP governments are not created to generate tax revenue. Taxes are not comparable to charges for services, as they are result of statutory authority only. It does not matter how specific the tax is regarding its use or purpose. Property and other taxes should be always reported as **nonoperating** revenue in proprietary fund statements.

Taxes are, in general, levied to assist in funding the deficit or net cost of operations and are not received due to proprietary funds operations ([2013-2014 Comprehensive Implementation Guide, Question 7.35.3](#)).

#### **Licenses and Permits (320)**

Licenses and permits are generally exchange or exchange-like transactions. Usually the price of paying the cost of issuing a license or permit amounts to the cost necessary to process that permit. Permit may be considered operating if it is an integral component of the enterprise funds' primary operations, and if it is considered operating from the perspective of the cash flows statement. Another example of permits and licenses being an operating revenue would include a permit fee

collected by an enterprise fund whose purpose is to issue permits.

### **Grants/Intergovernmental Revenues (330)**

Operating grants and contributions (both received and made) that are not restricted for capital purposes [these are reported as capital contributions] are excluded from an operating category since these are result of non-exchange transactions. Capital grants are always excluded. [GASB Statement 9](#), paragraph 21b, footnote 9, specifically includes grants or subsidies provided to finance operating deficits in the noncapital financing category, rather than the operating activities category. Based on that guidance, annual operating grants and subsidies should be reported as **nonoperating** revenues.

For example grants reported in a transit enterprise funds should not be reported as operating revenue but, rather, as non-operating revenue or as capital contributions [reported separately after non-operating revenues and expenses]. This is because the grants are funding the deficit and are not received because the state/feds are paying on-behalf of riders or passengers.

However, grants that are essentially the same as a **contract for services**, should be reported as **operating** revenues. Grants primarily benefit particular grantee furthering grantees own purpose or program. Grantor involvement is limited to administration and monitoring. It also benefits the grantor own program directly (e.g., federal government providing Medicare by law). This is in substance an exchange transaction.

Operating grants (vs. capital) are intended to finance operations, but **they are not a result of operations**.

### **Charges for Goods and Services (340)**

If these revenues are result of the governments' **principal operations**, they should be coded as **operating**.

### **Fines and Penalties (350)**

[GASB Statement 33, Accounting and Financial Reporting for Nonexchange Transactions](#) classifies fines as imposed non-exchange transactions, which excludes them from the operating revenue category. They should be reported as **nonoperating** revenues.

### **Miscellaneous Revenues (360)**

Majority of the miscellaneous revenues are considered **nonoperating** unless they are directly related to the government principal operation; if so, then they should be coded in the functional area. For example, interest revenue should be reported as **nonoperating**. They can be operating only if proprietary fund's principal operation is to provide loans. We believe there are no governments in the Washington State established only for this purpose.

Also, rentals and leases are all **nonoperating** unless the rental is directly related to the principal

operation, (a port district that primarily functions as marina, should code all non-marina rentals as nonoperating, etc.).

Service-type special assessments are exchange or exchange-like transactions which affect only those who directly benefit from a given service. Unlike the capital-type special assessments which should be reported as capital contributions, the service-type assessments can be reported as operating revenues if they are directly related to the principal operations of the government.

The immaterial amounts of all other revenues, not specifically listed in the BARS manual, should be coded either to 36991, *Miscellaneous Other* or 36992, *Miscellaneous Other Nonoperating* depending on their relationship to the governments' primary operations.

#### 1.5.110 **Expenses**

Since there is no authoritative definition what constitutes the operating expenses, each government must disclose the basis on which it separates operating from nonoperating expenses. This distinction should allow to demonstrate the extent to which the government is able to recover from its customers the cost of producing goods and providing services. So, the cost of goods sold and services provided constitute operating expenses.

# Account Structure

## Applicability

### 1.1 Account Structure

#### 1.1.1 **Applicability**

1.1.1.10 The *Budgeting, Accounting and Reporting System* (BARS) must provide a complete record of financial transactions to ease preparation of the prescribed financial reports.

1.1.1.20 The prescribed chart of accounts represents an orderly means of classifying transactions. Only the accounts applicable to a particular entity type should be used. This uniform system of accounts is best applied consistently throughout the budgeting, accounting and reporting cycles. However, it is permissible to use a different system of numbers for internal accounting, so long as equivalent detail is maintained for reporting purposes.

1.1.30 The following policies will govern the application of this accounting system by local governments following GAAP:

1. Double-entry accounting should be employed. This method requires that appropriate journals and ledgers be maintained to reflect the flow of financial transactions from the original source documents to the final posting. Journals provide a chronological history of financial transactions and systematic means by which the transactions can be distributed and summarized for convenient posting to ledger accounts. Subsidiary ledgers provide detail necessary to support or supplement control accounts in the general ledger. The general ledger control accounts record financial information in summary form for the local government.
2. The modified accrual basis of accounting is mandatory for the general (current expense), special revenue, debt service, capital projects and permanent funds.
3. The accrual basis of accounting is prescribed for enterprise, internal service, investment, pension (and other employee benefits), private-purpose and custodial funds.
4. The prescribed chart of accounts must be used for detail reporting of revenues and expenditures/expenses. If a different system of numbers is used for internal accounting, it must contain equivalent detail throughout the budgeting, accounting, and reporting processes.



## Structure

### 1.1 Account Structure

#### 1.1.2 Structure

1.1.2.10 The BARS structure requires a ten-digit capability to accommodate the required coding. Of these ten digits, seven digits are fully reserved for the account code. This means, if the local government decides to use unassigned digits for local purposes, it should be aware that these digits may be prescribed in the future and the new prescription will supersede the local applications.

1.1.2.20 The remaining three digits are designated for the fund number.

1.1.2.40 The BARS code structure has the following components:

#### **FUND code:**

The three digit code is used to identify different fund types. Except for fiduciary funds where the second digit is prescribed, only the first digit has to follow the designated numbers. See *Fund Types and Accounting Principles* for [GAAP](#) or [cash-basis](#) governments.

General (Current Expense) Fund	<b>000-099</b>
Special Revenue Funds	<b>100-199</b>
Debt Service Funds	<b>200-299</b>
Capital Projects Funds	<b>300-399</b>
Permanent Funds	<b>700-799</b>
Enterprise Funds	<b>400-499</b>
Internal Service Funds	<b>500-599</b>
Investment Trust Funds	<b>600-609</b>
Pension (and Other Employee Benefit) Trust Funds	<b>610-619</b>
Private-Purpose Trust Funds	<b>620-629</b>
Custodial Funds (for External Investment Pool Funds use code 699)	<b>630-699</b>

#### **FIRST digit:**

3 (Three) denotes revenues and other financing source accounts. **[1]**

5 (Five) denotes expenditures/expenses and other financing use accounts. **[2]**

#### **SECOND and THIRD digits:**

Revenue - The numbers assigned to identify the source (origin or originating category) of revenues.

Expenditure/Expense - The numbers assigned to identify different functions and activities for which expenditures/expenses are incurred.

**FOURTH and FIFTH digits:**

Revenue - The numbers assigned to further identify specific types of revenues within a particular source.

Expenditure/Expense - The numbers assigned to further identify specific elements and subelements of activities related to the particular function and activity.

**SIXTH (OBJECT) and SEVENTH digits:**

Revenue - The numbers have not been defined, and are available for the additional coding by the local government. However, as the BARS manual is updated, they may be assigned for specific purposes.

Expenditure/Expense - The numbers assigned to identify expenditures/expenses according to the character and the type of items purchased or services obtained.

**Minimum Levels for Reporting Revenues and Expenditures/Expenses**

1.1.2.50 The following chart summarizes the amount of detail required.

<b>Digit</b>	<b>Example</b>	<b>REVENUES</b>
Fund	<b>001</b>	Required <b>[3]</b>
First	<b>300</b>	Required
Second	<b>340</b>	Required
Third	<b>342</b>	Required
Fourth	<b>34220</b>	Optional <b>[4]</b>
Fifth	<b>34221</b>	Optional <b>[4]</b>
Sixth	<b>342211</b>	Optional
Seventh	<b>3422111</b>	Optional
<b>Digit</b>	<b>Example</b>	<b>EXPENDITURES/EXPENSES</b>
Fund	<b>001</b>	Required <b>[3]</b>
First	<b>500</b>	Required
Second	<b>510</b>	Required
Third	<b>514</b>	Required
Fourth	<b>51420</b>	Optional <b>[4]</b>
Fifth	<b>51420</b>	Optional <b>[4]</b>
Sixth	<b>5142021</b>	Required

Seventh	5142021	Optional
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- [1]** *Except 308 - beginning fund balance/net position.*
  - [2]** *Except 508 - ending fund balance/net position.*
  - [3]** *Except for fiduciary funds where the second digit is required.*
  - [4]** *Except when specifically prescribed in the BARS Manual.*

# General Ledger Accounts

## General Ledger Accounts

### 1.2 General Ledger Accounts

1.2.10 The specific account numbers contained here are **not prescribed**, with an exception for selected liabilities accounts which are required to be reported on the Schedule of Liabilities (Schedule 09). Use of general ledger accounts in cash basis governments is optional. This general ledger has been carefully designed to meet several needs.

1.2.20 First, the accounts provide for identification of assets, deferred outflows, liabilities, deferred inflows and fund balances/net position that any local government fund might acquire. Throughout the general ledger, the fourth or fifth and subsequent digits have been left for local governments to use in establishing more detailed breakdowns where needed.

1.2.30 Second, the general ledger has been designed to permit logical summarization of the detailed accounts at various levels. The table which follows on the next few pages illustrates in detail the structure of the general ledger. In general, the outline is as follows:

100-193			<b>ASSETS</b>	200-26X		<b>LIABILITIES</b>
	111-152		Current Assets		210-245	Current Liabilities
		111-118	Cash and Investments			
		121-136	Receivables		246-26X	Noncurrent Liabilities
		141-152	Other Current Assets	271		<b>DEFERRED INFLOWS OF RESOURCES</b>
				280-285		<b>FUND BALANCES AND NET POSITION</b>
	156-193		Noncurrent Assets		281-282, 286-288	Fund Balance
		156-157	Restricted Noncurrent Assets		283-285	Net Position
		161-167	Receivables			
		171-191	Capital Assets			
		193	Other Noncurrent Assets			
198			<b>DEFERRED OUTFLOWS OF RESOURCES</b>			

1.2.40 Third, the comprehensiveness of the general ledger combined with the uniform summarization outlined above is designed to make the preparation balance sheets a simple matter of extracting the balances at the same level for all the funds of a government. The headings on the chart which begins on the next page identify which digits to sort or summarize by for reporting purposes. The presentation of the balance sheet is structured in similar manner as the general ledger accounts.

Report Headings and Account Titles	Report Heading	Report Accounts	Detail Accounts	Required Detail Accounts
<b>ASSETS:</b>	100-193			
<b>CURRENT ASSETS:</b>	111-152			
<b>Cash and Cash Equivalents</b>		111.		
<b>Cash with Fiscal Agents/Trustees</b>		115.		
<b>Investments</b>		118.		
<b>Taxes Receivable</b>		121.		
Taxes Receivable – Current			121.10	
Taxes Receivable – Delinquent			121.30	
Interest and Penalties Receivable – Taxes			121.80	
Allowance for Uncollectible Taxes (Credit)			121.90	
<b>Accounts Receivable</b>		122.		
Accounts Receivable			122.10	
Unbilled Accounts Receivable			122.70	
Allowance for Uncollectible Receivable (Credit)			122.90	
<b>Special Assessments Receivable</b>		123.		
Special Assessments Receivable – Current			123.10	
Special Assessments Receivable – Delinquent			123.30	
Interest Receivable on Special Assessments			123.50	
Penalties Receivable on Special Assessments			123.70	
<b>Interest Receivable</b>		124.		
<b>Notes/Contracts/Loans Receivable</b>		125.		
Notes/Contracts/Loans Receivable			125.10	
Allowance for Uncollectible Notes/Contracts/Loans (Credit)			125.90	
<b>Other Current Receivables</b>		126.		
Other Current Receivables			126.10	
Allowance for Uncollectible Receivable (Credit)			126.90	
<b>Due from Other Funds</b>		131.		
<b>Interfund Loans Receivable</b>		132.		
<b>Due from Other Government(s)</b>		134.		
<b>Due from Component Unit(s)</b>		135.		
<b>Due from Primary Government</b>		136.		
<b>Inventories</b>		141.		
<b>Prepaid Items</b>		143.		
<b>Other Current Assets</b>		145.		
<b>Current Assets Restricted for _____</b>		151.		
<b>Current Assets Restricted for Landfill Closure and Postclosure Care Costs</b>		152.		
<b>NONCURRENT ASSETS:</b>	156-193			
<b>Noncurrent Assets Restricted for _____</b>		156.		
<b>Noncurrent Assets Restricted for Landfill Closure and Postclosure Care Costs</b>		157.		
<b>Special Assessments Receivable</b>		161.		

Report Headings and Account Titles	Report Heading	Report Accounts	Detail Accounts	Required Detail Accounts
<b>Notes/Contracts/Loans Receivable</b>		163.		
<b>Advances to Other Funds</b>		165.		
<b>Investment in Joint Ventures</b>		167.		
<b>CAPITAL ASSETS</b>	171-191			
<b>Land</b>		171.		
Accumulated Depletion (Credit)			171.90	
<b>Buildings and Structures</b>		172.-173.		
Accumulated Depreciation (Credit)			173.90	
<b>Leasehold Improvements</b>		175.		
Accumulated Amortization (Credit)			175.90	
<b>Other Improvement</b>		176.-179.		
Accumulated Depreciation (Credit)			179.90	
<b>Machinery and Equipment</b>		181.-188.		
Accumulated Depreciation (Credit)			188.90	
<b>Construction in Progress</b>		189.		
<b>Intangible Assets</b>		191.		
Accumulated Amortization (Credit)			191.90	
<b>Other Noncurrent Assets</b>		193.		
Investments			193.10	
Property Held in Trust or for Future Use			193.40	
Pension Asset			193.50	
Capital Assets Held for Resale			193.70	
Other Noncurrent Assets			193.80	
<b>DEFERRED OUTFLOWS of RESOURCES</b>	198			
<b>LIABILITIES:</b>	200-267			
<b>CURRENT LIABILITIES:</b>	211-245			
<b>Warrants Payable</b>		211.		
<b>Accounts/Vouchers Payable</b>		213.		
Accounts Payable			213.10	
Vouchers Payable			213.40	
<b>Claims and Judgments Payable</b>		215.		
<b>Matured Long-Term Obligations Payable</b>		217.		
G.O. Bonds Payable			217.10	
Revenue Bonds Payable			217.20	
Special Assessment Bonds Payable			217.30	
Revenue Warrants Payable			217.40	
Leases and Installment Purchases Payable			217.50	
Notes Payable			217.70	
Other			217.90	
<b>Matured Interest Payable</b>		219.		
<b>Annuities Payable</b>		221.		

Report Headings and Account Titles	Report Heading	Report Accounts	Detail Accounts	Required Detail Accounts
<b>Contracts Payable</b>		223.		
Construction Contracts Payable			223.10	
Retainage Payable			223.40	
Interest on Contracts Payable			223.70	
Other Contracts Payable			223.90	
<b>Due to Other Funds</b>		225.		
<b>Due to Component Unit(s)</b>		226.		
<b>Interfund Loans Payable</b>		227.		
<b>Due to Primary Government</b>		228.		
<b>Due to Other Government(s)</b>		229.		
<b>Other Accrued Liabilities</b>		231.		
Interest Payable			231.10	
Arbitrage Rebate Tax Payable			231.20	
Accrued Wages			231.30	
Accrued Employee Benefits			231.50	
Accrued Taxes			231.70	
Other			231.90	
<b>Current Portion of Long-Term Obligations</b>		235.		
G.O. Bonds Payable			235.10	
Revenue Bonds Payable			235.20	
Special Assessment Bonds Payable			235.30	
Revenue Warrants Payable			235.40	
Leases and Installment Purchases Payable			235.50	
Notes Payable			235.70	
Other			235.90	
<b>Custodial Accounts</b>		237.		
<b>Other Current Liabilities</b>		239.		
Customer Deposits (Nonproprietary)			239.10	
Anticipation Warrants/Notes			239.60	
Registered Warrants			239.70	
Other			239.90	
CURRENT PAYABLE from RESTRICTED ASSETS:	241-245			
<b>Debt Principal Payable</b>		241.		
<b>Debt Interest Payable</b>		242.		
<b>Deposits and Other Payables</b>		245.		
NONCURRENT LIABILITIES:	246-267			
NONCURRENT PAYABLE from RESTRICTED ASSETS:	246-248			
<b>Debt Principal Payable</b>		246.		
Revenue Bonds Payable			246.10	
Other Bonds Payable			246.20	
Warrants/Notes Payable			246.40	
<b>Debt Interest Payable</b>		247.		
<b>Deposits and Other Payables</b>		248.		
Deposits Payable			248.10	
Other			248.90	

Report Headings and Account Titles	Report Heading	Report Accounts	Detail Accounts	Required Detail Accounts
<b>General Obligation Bonds Payable</b>		251.		
Bonds at Face Value (for Capital Purposes)			251.10	
No Vote Required				251.11
Vote Required				251.12
Advance Refunding - Defeasance Method				251.15
Advance Refunding - Crossover Method				251.16
Vote Required for Utility Purposes (Cities & Towns)				251.21
Vote Required for Open Space, Parks and Capital Facilities (Cities & Towns)				251.22
No Vote Required for Metropolitan Municipal Corporation (County)				251.31
Vote Required for Metropolitan Municipal Corporation (County)				251.32
No Vote Required for Construction (Ports)				251.41
No Vote Required for Airport Improvement (Ports)				251.42
Vote Required for Airport Improvements (Ports)				251.43
Vote Require for Foreign Trade Zones (Ports)				251.44
Bonds at Face Value (for M&O Purposes)			251.50	
No Vote Required				251.51
Vote Required				251.52
Advance Refunding - Defeasance Method				251.55
Advance Refunding - Crossover Method				251.56
Unamortized Premium			251.60	
Unamortized Discount (Debit)			251.70	
Advance Refunded G.O. Bond Issues			251.90	
<b>Revenue Bonds Payable</b>		252.		
Bonds at Face Value (for Capital Purposes)			252.10	
No Vote Required				252.11
Vote Required				252.12
Advance Refunding - Defeasance Method				252.15
Advance Refunding - Crossover Method				252.16
Unamortized Premium			252.20	
Unamortized Discount (Debit)			252.30	
Bonds at Face Value (for M&O Purposes)			252.40	
No Vote Required				252.41
Vote Required				252.42
Advance Refunding - Defeasance Method				252.45
Advance Refunding - Crossover Method				252.46
Advance Refunded Revenue Bond Issues			252.90	



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Report Headings and Account Titles	Report Heading	Report Accounts	Detail Accounts	Required Detail Accounts
<b>Special Assessment Bonds Payable</b>		253.		
Special Assessment Bonds at Face Value			253.10	
LID Bonds				253.11
ULID Bonds				253.12
RID Bonds				253.13
Other Special Improvement Bonds				253.14
CRID Bonds				253.15
Advance Refunding - Defeasance Method				253.16
Advance Refunding - Crossover Method				253.17
Unamortized Premium			253.20	
Unamortized Discount (Debit)			253.30	
LID Warrant with Commitments				253.43
LID Notes Payable with Commitments				253.63
Advance Refunded Special Assessment Bond Issues			253.80	
Miscellaneous Assessment Debt			253.90	
Miscellaneous Assessment Debt with Commitment				253.98
<b>Advances from Other Funds</b>		255.		
<b>Unearned Revenue</b>		257.		
<b>Compensated Absences</b>		259.		
Compensated Absences				259.12

Report Headings and Account Titles	Report Heading	Report Accounts	Detail Accounts	Required Detail Accounts
<b>Other Noncurrent Liabilities</b>		263		
Claims and Judgments Payable				263.12
Liability for Landfill Closure and Postclosure Care Costs				263.22
Utility Operating Reserves			263.30	
Revenue Warrants Payable			263.40	
Leases and Installment Purchases (General Obligation)				263.51
Leases and Installment Purchases (No General Obligation)				263.52
Notes Payable (General Obligation)				263.61
Notes Payable (No General Obligation)				263.62
Arbitrage Rebate Tax Payable				263.72
Due to Other Governments			263.80	
Loans and Other Obligations to Federal or out-of-State Governments (General Obligation)				263.81
Loans and Other Obligations to Federal or out-of-State Governments (No General Obligation)				263.82
Loans and Other Obligations to WA State (except LOCAL and PWTFL) (General Obligation)				263.83
Loans and Other Obligations to WA State (except LOCAL and PWTFL) (No General Obligation)				263.84
Loans and Other Obligations to Other WA Local Governments (General Obligation)				263.85
Loans and Other Obligations to Other WA Local Governments (No General Obligation)				263.86
Public Work Trust Fund Loans (General Obligation)				263.87
Public Work Trust Fund Loans (No General Obligation)				263.88
Miscellaneous Noncurrent Liabilities			263.90	
Miscellaneous Debt (General Obligation)				263.91
Miscellaneous Debt (No General Obligation)				263.92
Environmental Liabilities				263.93
Line of Credit with a General Obligation Pledge				263.94
Line of Credit (No General Obligation)				263.95
LOCAL Program (General Obligation)				263.96
LOCAL Program (No General Obligation)				263.97
Miscellaneous Liabilities (General Obligation)				263.98
Miscellaneous Liabilities (No General Obligation)				263.99
Pension Liabilities (Net)			264.30	
OPEB Liabilities			264.40	
<b>Other Credits</b>		267.		
<b>DEFERRED INFLOWS of RESOURCES</b>	271			
<b>FUND BALANCES and NET POSITION:</b>	281-288			
FUND BALANCE:	281-282			
	286-288			
<b>Nonspendable</b>		281.		
<b>Restricted</b>		282.		
<b>Committed</b>		286.		
<b>Assigned</b>		287.		
<b>Unassigned</b>		288.		

Report Headings and Account Titles	Report Heading	Report Accounts	Detail Accounts	Required Detail Accounts
NET POSITION	283-285			
Held in Trust for Pension Benefit			283.10	
Held in Trust for Pool Participants			283.20	
Held in Trust for Other Purposes			283.90	
Net Investment in Capital Assets			284.10	
Restricted for _____			284.20	
Restricted for _____, Permanent Restriction				284.21
Restricted for _____, Temporary Restriction				284.22
Unrestricted		285.		

## ASSETS

### 110-152 CURRENT ASSETS

Include those assets which will be used up or converted into cash within the next operating cycle (e.g., twelve months).

#### 111. Cash and Cash Equivalents

Currency, coins, negotiable money orders, petty cash and checks, and balances on deposit with financial institutions. Cash equivalents are short-term highly liquid investments including Treasury bills, commercial paper, and money market funds.

#### 115. Cash with Fiscal Agents/Trustees

Include moneys set aside within the treasury to pay matured bonds and interest, deposits with fiscal agents, such as commercial banks, for the payment of matured bonds and interest, moneys held by government outside the main treasury on behalf of private individuals or organizations, or until ultimate disposition is determined, deposits with fiduciaries including banks, brokers and insurance companies made on behalf of private individuals or organizations. Include both cash and investments.

#### 118. Investments

Include all securities and other assets acquired for the purpose of obtaining income or profit. Investments should be reported at **fair value**. Investments with original maturities of three months or less may be considered cash equivalents and accounted for in the G.L. account 111. Do not include investments restricted for specific purpose in proprietary funds. Purchased interest should be posted to the revenue account 3619000 (G.L. account 292.10).

#### 121. Taxes Receivable

##### 121.10 Taxes Receivable - Current

Include the uncollected portion of property tax which a government has levied and for which the due date has not yet passed. Also include any amounts of other uncollected taxes (see BARS 310 series) that are measurable and available. Do not include interfund receivables (see account 131).

121.30 Taxes Receivable - Delinquent

Include taxes remaining unpaid on and after the date on which interest is assessed or a penalty for nonpayment attached. This segregation from current taxes is required only for the government which is the tax collection agent.

121.80 Interest and Penalties Receivable - Taxes

The uncollected portion of interest and penalties receivable on taxes.

121.90 Allowance for Uncollectible Taxes (Credit)

A valuation account used to indicate that portion of taxes and related interest and penalties which it is estimated will never be collected.

**122. Accounts Receivable**

122.10 Accounts Receivable

Amounts due from customers on open account for goods and services provided. Significant receivable balances not expected to be collected within one year of the date of financial statements should be disclosed in the notes.

122.70 Unbilled Accounts Receivable

Amounts earned by the government for goods or services rendered for which billings have not been prepared at the end of the reporting period.

122.90 Allowance for Uncollectible Receivable (Credit)

A valuation account used to indicate that portion of customer accounts which it is estimated will never be collected and will eventually be written off.

**123. Special Assessments Receivable**

123.10 Special Assessments Receivable - Current

Include the uncollected portion of special assessments which a government has levied and which are due within 60 days (for governmental funds). Exclude interfund assessments which should be reported in account 131. Also exclude any special assessments accounted for in a proprietary fund, which should be reported in account 151.

123.30 Special Assessments Receivable - Delinquent

Include the uncollected portion of special assessments which are past due. Exclude interfund assessments, which should be reported in account 131. Also exclude any special assessments accounted for in a proprietary fund, which should be reported in account 151.

123.50 Interest Receivable on Special Assessments

Include the uncollected portion of interest receivable on special assessments in governmental funds.

123.70 Penalties Receivable on Special Assessments

Include the uncollected portion of penalties receivable on special assessments in governmental funds.

**124. Interest Receivable**

Interest earned on investments, notes, contracts and miscellaneous receivables. Do not include interest on taxes or special assessments.

**125. Notes/Contracts/Loans Receivable**

125.10 Notes/Contracts/Loans Receivable

Include current amounts due from private individuals or organizations evidenced by a written promise to pay.

125.90 Allowance for Uncollectible Notes/Contracts/Loans (Credit)

**126. Other Current Receivables**

126.10 Other Current Receivables

Include amounts of impact or developers' fees or reimbursable charges for services receivable from private developers, rents and other receivables.

126.90 Allowance for Uncollectible Receivable (Credit)

**131. Due from Other Funds**

A receivable for goods issued, work performed or services rendered to or for the benefit of another fund of the same government. Also use this account for subsidies and other transfers between funds that have been authorized but not yet paid. The owing fund should have an equal amount recorded under account 225. Include receivables between a primary government and blended component units.

**132. Interfund Loans Receivable**

Include the uncollected amounts of interfund loans. See [Loans](#).

**134. Due from Other Government(s)**

Include amounts due to the reporting government from another government. These amounts may represent measurable and available intergovernmental grants, entitlements, or shared revenues; grants or taxes collected for the reporting government by an intermediary collecting government; loans; and charges for services rendered by the reporting unit for another government. Receivables for services that are not governmental in nature, such as insurance, utilities, rents, repairs, and supplies, should not be included here. Use account 122.

**135. Due from Component Unit(s)**

Amounts due to the reporting entity from discretely presented component unit(s). The receivables from blended component unit(s) are presented in 131. Some transactions and balances previously recorded in 131 or 134 may need to be reclassified for presentation in the reporting entity (primary government) financial statements. The owing component unit(s) should have an equal amount recorded in 228. For details see [GAAP Reporting Requirements](#).

**136. Due from Primary Government**

Include amounts due to the discretely presented component unit(s) from the primary government. The owing reporting entity (primary government) should have an equal amount recorded in 226. For details see [GAAP Reporting Requirements](#).

**141. Inventories**

Include material and supplies on hand for future consumption. Also, include goods held for resale rather than used in operations and raw materials used in manufacturing goods for sale.

**143. Prepaid Items**

Include payments for services and benefits not yet received (e.g., prepaid rent, unexpired insurance premiums, etc.).

**145. Other Current Assets****150. RESTRICTED ASSETS**

Restricted assets are those proprietary fund monetary assets which have their use limited by statute, bond covenant, or other contractual or trust relationship (e.g., money set aside to pay principal and interest on outstanding debt, customer deposits, retainage, assessments, etc.). For reporting purposes, restricted assets must be shown in account 150, although they may be accounted for during the year in separate funds, using current asset accounts (111, 118, 123, etc.). Separate funds are not required for restricted assets, even though bond covenants may stipulate a *bond reserve fund*, *construction fund*, etc. The bond covenant use of the term *fund* is not the same as the use in governmental accounting. For bond covenants, *fund* means only a segregation or separate account, not a self-balancing set of accounts.

Most restricted assets are offset by corresponding current liabilities (accounts 241-245, *Current Payable from Restricted Assets*), noncurrent liabilities (accounts 246-248, *Noncurrent Payable from Restricted Assets*), or by a restriction of net position (account 284.20).

**151. Current Assets Restricted for \_\_\_\_\_**

**152. Current Assets Restricted for Landfill Closure and Postclosure Care Costs**

(RCW [70.95.215](#))

**156-193 NONCURRENT ASSETS**

**156. Noncurrent Assets Restricted for \_\_\_\_\_**

**157. Noncurrent Assets Restricted for Landfill Closure and Postclosure Care Costs**

(RCW [70.95.215](#))

**161. Special Assessments Receivable**

Include the uncollected portion of special assessments not due for 60 days (governmental funds) or one year (proprietary funds). Exclude interfund assessments which should be reported in account 165. When accounting for special assessments in proprietary funds, make certain that all collections are recorded as restricted assets. The current portion and related interest and penalties should be recorded in account 123 (for governmental funds) or account 151 (for proprietary funds).

**163. Notes/Contracts/Loans Receivable**

Noncurrent amounts due from private individuals or organizations evidenced by a written promise to pay. The current portion should be recorded in account 125.

**165. Advances to Other Funds**

The uncollected amounts of long-term interfund loans; that is, loans which do not meet the criteria of *temporary* defined in the [Loans](#). Also include the amount of unearned assessments owed by other funds of the same government.

**167. Investment in Joint Ventures**

A joint venture is a legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain (a) an ongoing financial interest, or (b) an ongoing financial responsibility. The government's investment should be accounted for using the equity method, if the investment is material.

**170-191 CAPITAL ASSETS**

Those assets acquired by the government for its own use through purchase, lease, self-construction, donation, or gift, with a life expectancy of more than one year. In addition to land, buildings and equipment, capital assets also include land and air rights, depletable resources such as minerals or timber, improvements made to leased property and the cost of partly-completed capital projects.

### **171. Land**

171.90 Accumulated Depletion (Credit)

### **172-173. Buildings and Structures**

173.90 Accumulated Depreciation (Credit)

### **175. Leasehold Improvements**

175.90 Accumulated Amortization (Credit)

### **176-179. Other Improvements**

179.90 Accumulated Depreciation (Credit)

### **181-188. Machinery and Equipment**

188.90 Accumulated Depreciation (Credit)

### **189. Construction in Progress**

### **191. Intangible Assets**

Include assets with no physical substance, such as patents, franchise fees, licenses, computer software, rights to use property, etc. with a useful life that exceeds one year.

191.90 Accumulated Amortization (Credit)

### **193. OTHER NONCURRENT ASSETS**

193.10 Investments

Include all securities and other assets acquired for the purpose of obtaining income or profit. Investments should be reported at **fair value**.

Do not include investments restricted for specific purpose in proprietary funds (see account 156). Purchased interest should be debited to the revenue account 3619000 (G.L. account 292.10).

193.40 Property Held in Trust or for Future Use

Include nonmonetary property acquired by distraint, foreclosure or default, record at the amount of



the tax lien. Use the purchase price for land acquired for a future plant site.

#### 193.50 Pension Asset

The difference between the total pension liability and fiduciary net position.

#### 193.70 Capital Assets Held for Resale

Include capital assets which have been declared surplus but are still owned by the government until they can be sold, traded, or otherwise disposed.

#### 193.80 Other Noncurrent Assets

### **198. DEFERRED OUTFLOWS OF RESOURCES**

A consumption of net assets by the government that is applicable to a future reporting period. This account should include transactions related to accumulated decrease in fair value of hedging derivatives, deferred amount on refunding [the unamortized difference between the net carrying amount of the debt and its reacquisition price (when the reacquisition price exceeds the net carrying amount - loss on refunding)], grants paid in advance (when grantor provides resources to grantee after all requirements have been met except the grantor stipulated time requirement), pension, and other items as defined by the Governmental Accounting Standards Board. The categories should be detailed in the financial statements.

### **LIABILITIES**

#### **211-23X CURRENT LIABILITIES**

Include liabilities which are payable within next operating cycle (e.g., twelve months).

##### **211. Warrants Payable**

The amount of operating warrants issued and outstanding. This account will be credited when warrants are issued and debited when warrants are redeemed or canceled. Do not use this account to record the issuance of revenue warrants (see accounts 235 and 263). Code cities using checks instead of warrants should not use this account.

##### **213. Accounts/Vouchers Payable**

###### 213.10 Accounts Payable

Amounts not yet vouchered but owed on open account to private persons or organizations for goods and services furnished to a government (but not including amounts due to other funds or to other governments).

###### 213.40 Vouchers Payable

Liabilities for goods and services evidenced by vouchers which have been pre-audited and approved for payment but not yet paid.

### **215. Claims and Judgments Payable**

Amounts owed as compensation or payment for injury or damage. Include unpaid losses not covered by an insurance contract or bond and amounts owed as the result of court decisions, such a condemnation awards for private property taken for public use.

### **217. Matured Long-Term Obligations Payable**

Include the portion of all long-term debt which has become due. For explanation of the specific categories below, see accounts 251, 252, 253 and 263.

217.10 G.O. Bonds Payable

217.20 Revenue Bonds Payable

217.30 Special Assessment Bonds Payable

217.40 Revenue Warrants Payable

217.50 Leases and Installment Purchases Payable

217.70 Notes Payable

217.90 Other

### **219. Matured Interest Payable**

Include interest due on long-term debt. For interest accrued between due dates, use account 231.10.

### **221. Annuities Payable**

Include pension benefits due and payable to retired employees in a public employee retirement system.

### **223. Contracts Payable**

223.10 Construction Contracts Payable

Include amounts of progress payments due for construction of buildings and other improvements. If the amounts earned by contractors at the end of the fiscal period are material, they should be estimated and accrued if a progress billing is not available.

223.40 Retainage Payable

Include amounts due on construction contracts, representing a percentage of the progress billings. These amounts are not paid until final inspection, the lapse of a specified time period, or both. (RCW [50.24.130](#) and Chapter [60.28](#) RCW) Include amounts deposited to escrow accounts (see account 115) as well as amounts held in the municipal treasury.

#### 223.70 Interest on Contracts Payable

Use this account to accumulate interest on retainage when requested by the contractor (RCW [60.28.010](#)).

#### 223.90 Other Contracts Payable

### **225. Due to Other Funds**

A payable for goods issued, work performed or services rendered from or by another fund of the same government. Also use this account for subsidies and other transfers between funds that have been authorized but not yet paid. The recipient fund should have an equal amount recorded under account 131. Include payables between a primary government and blended component units.

### **226. Due to Component Unit(s)**

Include amounts due to discretely presented component unit(s) from the primary government. The payables to blended component unit(s) are presented in 225. Some transactions and balances previously recorded in 225 and 229 may need to be reclassified for the presentation in the reporting entity (primary government) financial statements. The recipient component unit(s) should have an equal amount recorded in 136.

### **227. Interfund Loans Payable**

The amounts of interfund loans not yet repaid. See [Loans](#) for further definition.

### **228. Due to Primary Government**

Amounts due to the primary government from discretely presented component unit(s). The payables of blended component unit(s) are presented in 225. An equal amount should be recorded in 135. For details, see [GAAP Reporting Requirements](#).

### **229. Due to Other Government(s)**

Current amounts due to other governments. These amounts may represent intergovernmental grants or entitlements; loans; and charges for services rendered by another government. Payables for services that are not governmental in nature, such as insurance, utilities, rents, repairs, and supplies, should not be included here. Use account 213 or 231.

### **231. Other Accrued Liabilities**

These are amounts of expenses/expenditures that have been incurred by the end of the fiscal period but will become payable at a future date. Do not include accruals for claims and judgments, annuities, or construction contracts in this account. See accounts 215, 221, and 223.

231.10 Interest Payable

Interest earned by creditors, including bondholders, since the last payment or coupon date.

231.20 Arbitrage Rebate Tax Payable

The interest earnings accrued at the end of the 5th year and due and payable to the U.S. Treasury. See [Arbitrage Rebates](#).

231.30 Accrued Wages

Wages earned by employees since the last payroll. Include the current portion of the unpaid liability for employee absences (vacation and other accruable leave). Use account 259 to record the long-term liability for compensated absences.

231.50 Accrued Employee Benefits

Estimated benefits associated with accrued wages, account 231.30. Include payroll taxes.

231.70 Accrued Taxes

Estimated taxes that are not directly associated with other specific liability accounts, such as B&O taxes or excise taxes. Do not include payroll taxes (see account 231.50).

231.90 Other

**235. Current Portion of Long-Term Obligations**

The unmatured portion of all long-term debt which will become due within one year (proprietary funds) but which is not yet due and which will require current assets to redeem (see account 240 for the current portion of long-term debt payable from restricted assets). Do not include any portion of refunded debt. Special rules apply to certain types of intermediate-length financing (see accounts 239.60 and 263.60). For explanations of the other specific types of debt, see accounts 251, 252, 253 and 263.

235.10 G.O. Bonds Payable

235.20 Revenue Bonds Payable

235.30 Special Assessment Bonds Payable

235.40 Revenue Warrants Payable

235.50 Leases and Installment Purchases Payable

235.70 Notes Payable

235.90 Other

### **237. Custodial Accounts**

A liability account for the money held by a government in a trustee capacity or as a custodian for individuals, private organizations, other governments, or other funds. Include such items as sales and leasehold taxes collected for the state, prisoners' cash, court trusts, contractors' bonds (bid deposits), etc. County treasurers should use this account to offset the assets held in custodial funds for special purpose districts. This account should be used only in fiduciary funds.

### **239. Other Current Liabilities**

239.10 Customer Deposits (Nonproprietary)

Include liability for deposits made by customers as a prerequisite to receiving services. In proprietary funds use account 245.10 instead.

239.60 Anticipation Warrants/Notes

These are short-term financing instruments (Chapter [39.50](#) RCW). Include the entire principal of those notes and warrants unless the instruments were authorized in anticipation of a bond issue (see account 263.60). This debt should be treated as fund debt, even in governmental funds.

239.70 Registered Warrants

239.90 Other

### **241-245 CURRENT PAYABLE FROM RESTRICTED ASSETS**

These accounts are used only in proprietary funds. Include the amounts of current liabilities and customer deposits for which the assets have been set aside as restricted in accounts 151-155. Do not include matured bonds or progress payments due to contractors; instead, the related assets should be treated as current and not restricted. For explanation of the specific types of debt, see accounts 239.60, 251, 252, 253, and 263.

**241. Debt Principal Payable**

**242. Debt Interest Payable**

**245. Deposits and Other Payables**

### **246-267 NONCURRENT LIABILITIES**

**246-248 NONCURRENT PAYABLE from RESTRICTED ASSETS**

These accounts are used only in proprietary funds. Include the amounts of current liabilities and customer deposits for which the assets have been set aside as restricted in accounts 156-158. Do not include matured bonds or progress payments due to contractors; instead, the related assets should be treated as current and not restricted. For explanation of the specific types of debt, see accounts 239.60, 251, 252, 253 and 263.

**246. Debt Principal Payable**246.10 Revenue Bonds Payable246.20 Other Bonds Payable246.40 Warrants/Notes Payable**247. Debt Interest Payable****248. Deposits and Other Payables**248.10 Deposits Payable248.90 Other**251. General Obligation Bonds Payable**251.10 G.O. Bonds at Face Value (for Capital Purposes)

The face value of all noncurrent bonds used for capital acquisitions and/or improvements for which the government has pledged its full faith and credit.

251.11 No Vote Required

251.12 Vote Required

251.15 Advance Refunding - Defeasance Method

251.16 Advance Refunding - Crossover Method

251.21 Vote Required for Utility Purposes (Cities and Towns)

251.22 Vote Required for Open Space, Parks and Capital Facilities (Cities and Towns)

251.31 No Vote Required for Metropolitan Municipal Corporation (County)

251.32 Vote Required for Metropolitan Municipal Corporation (County)

251.41 No Vote Required for Construction (Ports)

251.42 No Vote Required for Airport Improvement (Ports)

251.43 Vote Required for Airport Improvement (Ports) 251.44 Vote Required for Foreign Trade Zones (Ports)

251.50 G.O. Bonds at Face Value (for M and O Purposes)

The face value of all noncurrent bonds used for maintenance and operations (M and O) for which the government has pledged its full faith and credit.

251.51 No Vote Required

251.52 Vote Required

251.55 Advance Refunding - Defeasance Method

251.56 Advance Refunding - Crossover Method

251.60 Unamortized Premium on G.O. Bonds

The unamortized portion of the excess of G.O. bond proceeds over their face value (excluding accrued interest and issuance cost; see G.L. account 195.30 for issuance cost).

251.70 Unamortized Discount on G.O. Bonds (Debit)

The unamortized portion of the excess of the face value of G.O. bonds over the amount received from their sale (excluding accrued interest and issuance cost; see G.L. account 195.30 for issuance cost).

251.90 Advance Refunded G.O. Bond Issues

The amount of any refunded bonds included in this account should not be reported in the financial statements. For further discussion, see [Refunding Debt](#).

## **252. Revenue Bonds Payable**

252.10 Revenue Bonds at Face Value (for Capital Purposes)

The face value of all revenue bonds used for capital acquisitions and improvements not due within one year.

252.11 No Vote Required

252.12 Vote Required

252.15 Advance Refunding - Defeasance Method

252.16 Advance Refunding - Crossover Method

252.20 Unamortized Premium

The unamortized portion of the excess of revenue bond proceeds over their face value (excluding accrued interest and issuance cost; see G.L. account 195.30 for issuance cost).

252.30 Unamortized Discount (Debit)

The unamortized portion of the excess of the face value of revenue bonds over the amount received from their sale (excluding accrued interest and issuance cost; see G.L. account 195.30 for issuance cost).

252.40 Revenue Bonds at Face Value (for M and O Purposes)

The face value of all revenue bonds used for maintenance and operations (M and O) and not due within one year.

252.41 No Vote Required

252.42 Vote Required

252.45 Advance Refunding - Defeasance Method

252.46 Advance Refunding - Crossover Method

252.90 Advance Refunded Revenue Bond Issues

The amount of any refunded bonds included in this account should not be reported in the financial statements. For further discussion, see [Refunding Debt](#).

**253. Special Assessment Bonds Payable**

253.10 Special Assessment Bonds at Face Value

The face value of bonds issued for public improvements to be repaid (wholly or in part) from assessments levied against benefited properties. Bonds expected to be financed from special assessments should be recorded here even if the full faith and credit of the municipality is pledged.

253.11 LID Bonds

253.12 ULID Bonds

253.13 RID Bonds

253.14 Other Special Improvement Bonds



253.15 CRID Bonds

253.16 Advance Refunding - Defeasance Method

253.17 Advance Refunding - Crossover Method

253.20 Unamortized Premium

The unamortized portion of the excess of special assessment bond proceeds over their face value (excluding accrued interest and issuance cost; see G.L. account 195.30 for issuance cost).

253.30 Unamortized Discount (Debit)

The unamortized portion of the excess of the face value of special assessment bonds over the amount received from their sale (excluding accrued interest and issuance cost; see G.L. account 195.30 for issuance cost).

253.43 LID Warrants with Commitments

253.63 LID Notes Payable with Commitments

253.80 Advance Refunded Special Assessment Bond Issues

The amount of any refunded bonds included in this account should not be reported in the financial statements. For further discussion, see [Refunding Debt](#).

253.90 Miscellaneous Special Assessment Bonds

253.98 Miscellaneous Special Assessment Debt with Commitment

## **255. Advances from Other Funds**

The amounts of long-term interfund loans not yet repaid. Also include the amount of deferred assessments owed by a fund to other funds of the same government.

## **257. Unearned Revenue**

Amounts recognized as receivables, including amounts due from other governments, which cannot be classified as revenues. Under the modified accrual basis of accounting, such amounts are measurable but not available. See the discussion of revenue accrual in [Accrual of Revenues in Governmental Funds](#). Also include amounts collected that will not become revenues during the next fiscal year. For example, rental payment received for the last year of a lease running for several more years.

## **259. Compensated Absences**

This account is used to record the noncurrent liability for employee absences. Such compensation

should be recorded for all accrued vacation and for that portion of other leave, such as sick leave, for which the employee would be paid on termination. Use account 231.30 to record the current portion of these kinds of leave.

#### 259.12 Compensated Absences

### **263. Other Noncurrent Liabilities**

#### 263.12 Claims and Judgments Payable

The noncurrent portion of amounts owed as compensation or payment for injury or damages.

#### 263.22 Liability for Landfill Closure and Postclosure Care Costs

The estimated and accrued costs related to the closure of landfills in accordance with the Department of Ecology standards. See [Solid Waste Utilities: Closure and Postclosure Cost Accounting](#).

#### 263.30 Utility Operating Reserves

Amounts expensed by a proprietary fund and irrevocably set aside for pension, accident and death benefits, employee health and welfare, etc., but not included in restricted assets. Utilities may also use this account during the fiscal year for amounts expensed to meet the probable liability, not covered by insurance, for losses through accidents, fire, flood, or other hazards, and for losses from injury and damage claims. For reporting purposes, amounts that remain in this account at year-end which represent net self-insurance *reserves* must be credited against the related risk expense accounts, so that operating statements include as expenses only the actual judgments awarded and/or losses sustained.

#### 263.40 Revenue Warrants Payable

The noncurrent portion of warrants issued with a set term for redemption (also known as time warrants). In most cases, they are backed by the earnings of a specific fund rather than the full faith and credit of the issuing government. Any premium or discount should be accounted for separately from the face value, using subaccounts of this account.

#### 263.50 Leases and Installment Purchases Payable

Include the noncurrent portion of leases and lease/purchases. An explanation of capital leases and the required accounting for them is in [Leases](#).

#### 263.51 Leases and Installment Purchases Payable (General Obligation)

#### 263.52 Leases and Installment Purchases Payable (No General Obligation)

#### 263.60 Notes Payable

Include the noncurrent portion of promissory notes issued by a local government.

Include the entire unpaid principal of intermediate length financing instruments, such as anticipation notes and warrants (Chapter [39.50](#) RCW) authorized in anticipation of a bond issue, even though it may come due within 12 months.

Other anticipation notes or warrants should be classified as current debt even though payment may be delayed beyond 12 months (see account 239.60).

263.61 Notes Payable (General Obligation)

263.62 Notes Payable (No General Obligation)

263.70 Arbitrage Rebate Tax Payable

263.72 Arbitrage Rebate Tax Payable

The interest earnings accrued in years 1-4 that will be due to the U.S. Treasury at the end of the 5th year. Refer to discussion in [Arbitrage Rebates](#).

263.80 Due to Other Governments

Include the noncurrent portion of intergovernmental loans.

263.81 Loans and Other Obligations to Federal or out-of-State Governments (General Obligation)

263.82 Loans and Other Obligations to Federal or out-of-State Governments (No General Obligation)

263.83 Loans and Other Obligations to WA State (except LOCAL and PWTFL) (General Obligation)

263.84 Loans and Other Obligations to WA State (except LOCAL and PWTFL) (No General Obligation)

263.85 Loans and Other Obligations to Other WA Local Governments (General Obligation)

263.86 Loans and Other Obligations to Other WA Local Governments (No General Obligation)

263.87 Public Work Trust Fund Loans (General Obligation)

263.88 Public Work Trust Fund Loans (No General Obligation)

263.90 Miscellaneous Noncurrent Liabilities

263.91 Miscellaneous Debt (General Obligation)

263.92 Miscellaneous Debt (No General Obligation)

263.93 Environmental Liabilities

263.94 Line of Credit with a General Obligation Pledge

263.95 Line of Credit (No General Obligation)

263.96 LOCAL Program (General Obligation)

263.97 LOCAL Program (No General Obligation)

263.98 Miscellaneous Liabilities (General Obligation)

263.99 Miscellaneous Liabilities (No General Obligation)

264.30 Pension Liabilities (Net)

The cumulative difference between annual pension cost and the employer contribution to the pension plan.

264.40 OPEB Liabilities

## **267. Other Credits**

This account is used in proprietary funds to account for gains that will be amortized over succeeding fiscal periods. Use the separate accounts provided for items such as unamortized debt premium (accounts 251.20, 252.20 and 253.20), customer advances to be refunded (account 245) and amounts held pending disposition (account 237).

## **271 DEFERRED INFLOWS of RESOURCES**

An acquisition of net assets by the government that is applicable to future reporting period. This account should include transactions related to accumulated increase in fair value of hedging derivatives, deferred service concession arrangement receipts, deferred property tax, advance payments of property tax, special assessments, deferred amount on refunding [the unamortized difference between the net carrying amount of the debt and its reacquisition price (when the net carrying amount exceeds the reacquisition price - gain on refunding)], grants received in advance (when grantee receives grantor resources after all grantor requirements have been met except the grantor stipulated time requirement), pension, and other items as defined by the Governmental Accounting Standards Board. The categories should be detailed in the financial statements.

## **281-282 FUND BALANCE**

### **286-288**

These accounts are used to indicate the difference between the assets and liabilities reported in governmental funds.

### **281. Nonspendable Fund Balance**

Indicates the portion of fund balance is inherently nonspendable in current period (e.g., prepaid items, inventories, long-term portion of loans receivable, nonfinancial resources held for resale, etc.).

### **282. Restricted Fund Balance**

Indicates the portion of fund balance that is subject to externally enforceable legal restrictions (imposed by creditors, grantors, donors, other governments, etc.). The restrictions may be also imposed by law through constitutional provisions or enabling legislation.

### **286. Committed Fund Balance**

Indicates the portion of fund balance that represents resources whose use is constrained by limitations that the government imposes upon itself at the highest level of decision making (normally the governing body) and that remain binding unless removed in the same manner.

### **287. Assigned Fund Balance**

Indicates the portion of fund balance that reflects a government's intended use of resources.

### **288. Unassigned Fund Balance**

Indicates net resources in excess of nonspendable, restricted, committed, and assigned fund balance.

### **283-285 NET POSITION**

#### **283.10 Held in Trust for Pension Benefits**

The difference between the assets and liabilities of pension plans reported by the employer or sponsor government in a pension (and other employee benefit) trust fund.

#### **283.20 Held in Trust for Pool Participants**

The difference between the assets and liabilities of external investment pools reported by the sponsor government in an investment trust fund.

#### **283.90 Held in Trust for Other Purposes**

The difference between the assets and liabilities of fiduciary funds, other than pension (and other employee benefit) trust funds or investment trust funds.

#### **284.10 Net Investment in Capital Assets**

Capital assets net of accumulated depreciation, reduced by the outstanding balances of borrowings

attributable to the acquisition, construction, or improvement of those assets. Deferred outflows and inflows of resources attributable to the acquisition, construction, or improvement of those assets or related debt also should be included. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount should not be included.

284.20 Restricted for \_\_\_\_\_

The component of net position that consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

284.21 Restricted for \_\_\_\_\_, Permanent Restriction. Restricted component of net position that may never be spent (e.g., endowments).

284.22 Restricted for \_\_\_\_\_, Temporary Restriction. Restricted component of net position that may be spent at some time, either in the present or future.

**285. Unrestricted**

The net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

# Budgeting

## Budget Compliance

### Introduction

#### 2.4 Budget Compliance

##### 2.4.1 Introduction

2.4.1.10 A budget is a legal document that forecasts the financial resources of a government and authorizes the spending of those resources for a fiscal period. At a minimum, local governments' budget must meet the requirements of Washington state law and the State Auditor's Office. The SAO does not prescribe how to budget or what a budget should look like. The adopted budget should be of sufficient detail to be meaningful and meet the intention of the law. The SAO considers budgets showing revenues and expenditures at the legal fund level to be the minimum acceptable level of detail.

2.4.1.20 Budgeting is more than just an activity to satisfy state law. It is a sophisticated process of strategic planning, communication and policy development resulting in a detailed plan of operations for allocating and monitoring the use of limited resources among various competing demands. Teaching how to budget is outside the scope of the BARS. However, there are many educational resources available to local governments, such as the Municipal Research and Services Center ([mrsc.org](http://mrsc.org)) and the Government Finance Officers Association ([gfoa.org](http://gfoa.org)).

##### 2.4.1.30 Glossary of Budgetary Terms:

**Appropriation.** The legal spending level authorized by a budget ordinance or resolution. Spending should not exceed this level without prior approval of the governing body.

**Original Budget.** The first complete appropriated budget. The original budget may be adjusted by reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes before the beginning of the fiscal year. The original budget should also include actual appropriation amounts automatically carried over from prior years by law.

**Final Amended Budget.** The original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes applicable to the fiscal year, whenever signed into law or otherwise legally authorized.

**Comprehensive Budget.** An government-wide budget that includes all resources the government expects and everything it intends to spend or encumber during a fiscal period. The comprehensive budget contains annual/biennial appropriated budgets, the annual/biennial portion of continuing appropriations such as the capital improvement projects, debt amortization schedules, and grant projects, flexible budgets and all non-budgeted funds.

**Fixed Budget.** Those budgets which set an absolute maximum or ceiling on the expenditures of a particular fund, department, or other specific category. A fixed budget can be either an annual/biennial appropriated budget or a continuing appropriation. Fixed budgets must be adopted by ordinance or resolution, either for the government's fiscal period or at the outset of a service project, debt issue, grant award, or capital project.

**Annual/Biennial Appropriated Budget.** A fixed budget adopted for the government's fiscal period. The appropriated budget was traditionally used to determine a government's property tax levy, and a ceiling on expenditures was made absolute so that the expenditures of a government unit would not exceed its revenues. This budget was also historically a balanced budget, estimated revenues equaling appropriations. The appropriated budget is still used to set tax levies and some budget statutes still require balanced budgets, but it is more generally used to authorize a specific amount of expenditures regardless of whether estimated resources meet or exceed that amount. Appropriated budgets are required by statute in cities (Chapter [35.32A](#) RCW, Chapter [35.33](#) RCW and Chapter [35A.33](#) RCW), counties (Chapter [36.40](#) RCW), and most other local governments in Washington State. These budgets are also called legal budgets, adopted budgets, or formal budgets. The appropriated budgets should be adopted by ordinance or resolution.

**Continuing Appropriation.** A fixed budget which authorizes expenditures for a fiscal period that differs from the government's fiscal year, such as capital projects, debt issues, grant awards, and other service projects. These expenditures require an ordinance or resolution to authorize the project, establish the assessment roll, adopt the debt amortization schedule, or accept the grant award. Such ordinances or resolutions set an absolute maximum or ceiling on the expenditures, but the time period for incurring expenditures does not coincide with the government's fiscal year; it may even cover several years. The major difference between annual/biennial appropriated budgets and continuing appropriations is that the latter do not lapse at fiscal period end; this implies that no legislative action is required to amend the annual/biennial portion of a continuing appropriation, unless the total authorized expenditures would exceed the entire appropriation.

**Flexible Budgets.** Are usually regarded as managerial tools, which do not set a ceiling on expenses or expenditures but establish a plan for them at various levels of service. They are especially appropriate for the day-to-day operations of a public utility where it is essential to plan fluctuations in the demand for services and where revenues will automatically increase with demand, so that a balanced budget does not depend on establishing a ceiling for expenses.

**Working Capital Budget.** Combines flexible and fixed budget elements in one document for enterprise and internal service funds. Current operations are flexibly budgeted based on the estimated level of services to be provided and long-range sources and uses of assets are controlled by annual/biennial appropriations and continuing appropriations.

**Capital Improvement Budget.** Consists of two elements: the annual/biennial portion of capital projects and annual/biennial appropriations for the purchase, construction or replacement of major fixed assets in the current fiscal period.

**Operating Budget.** Presents the estimated expenditures and available resources necessary to



provide the services for which the government was created. An operating budget will contain flexible budgets and fixed budgets; the fixed budgets will include annual/biennial appropriations for services and the annual/biennial portion of continuing appropriations for debt service and for service projects.

**Encumbrances.** Commitments related to unperformed (executory) contracts for goods or services should be utilized to the extent necessary to assure effective budgetary control and to facilitate cash planning. Encumbrances outstanding at year end represent the estimated amount of expenditures ultimately to result if unperformed contracts in process are completed; they do not constitute expenditures or liabilities.

## Budget Adoption and Amendments

### 2.4 Budget Compliance

#### 2.4.3 Budget Adoption and Amendments

This guidance applies only to cities and counties.

2.4.3.10 All taxing districts must file certified levies and budgets with the county per RCW [84.52.020](#). All taxing districts are required to hold a public hearing on the proposed levy and budget (excluding capital, enterprise, and special assessment funds) and adopt their levy by ordinance or resolution per RCW [84.55.120](#).

2.4.3.20 Additional specific requirements for local governments that **are required to expend within their budget** are as follows:

- **Air Pollution Control Authorities (RCW [70.94.092](#))**. The budget year of each activated authority is July 1st to June 30th. On or before the fourth Monday in June of each year, the activated authority must adopt a budget sufficient to carry out the provisions of all applicable ordinances, resolutions, and local regulations related to the reduction, prevention, and control of air pollution.
- **Cities over 300,000 in population (Chapter [35.32A](#) RCW)**. No later than 90 days prior to the beginning fiscal year, the mayor must submit the proposed budget to the city council who may accept or revise the budget. A summary of the proposed budget must be advertised in the official city newspaper at least once. Public hearings must be scheduled on two or more days, and the scheduled hearings must be published in the city official newspaper and provided to general news media. No later than 30 days prior to the beginning of the fiscal year, the city council must adopt an ordinance approving the budget submitted by the mayor. The detail of the budget is specified by the state statute, and in no case can the adopted budget expenditure allowances exceed total estimated revenues unless accompanied by proposed legislation to raise an equivalent amount of additional revenue. The detail of the budget is specified by the state statute.
- **Cities under 300,000 in population (Chapter [35.33](#) RCW)**. At least 60 days prior to the beginning of the fiscal year (or other time as established by ordinance or charter), the chief administrative officer must submit the preliminary budget to the legislative body. The clerk must publish a notice once a week for two consecutive weeks in the official city newspaper that includes the following information: a copy of the preliminary budget is available to any taxpayer; and the date, time, and place the legislative body will meet to discuss the budget (must be on or before the first Monday of the month preceding the beginning of the fiscal

year). Prior to the beginning of the fiscal year, the legislative body must adopt an ordinance approving the budget. A complete copy of the final budget as adopted must be transmitted to the association of Washington cities. The detail of the budget is specified by the state statute.

- **Counties (Chapter [36.40 RCW](#)).** On or before the first Tuesday of September each year, the auditor must submit the budget to the board of county commissioners, who may accept or revise the preliminary budget. Immediately following the adoption of the preliminary budget, the county legislative authority must publish a notice once a week for two consecutive weeks in the official county newspaper that includes the following information: a copy of the preliminary budget is available to any taxpayer; and the date, time, and place the legislative body will meet to discuss the budget and making tax levies. Copies of the preliminary budget must be available two weeks prior to the first Monday in October. At the conclusion of the budget hearing the county legislative authority must adopt a resolution approving the budget.
- **Diking, Diking Improvement or Consolidated Diking Districts (RCW [85.38.170](#)).** On or before December 1st each year, the governing body must adopt a resolution approving the budget and special assessments sufficient to finance the budget. A copy of the resolution must be forwarded immediately to the county commissioners.
- **Drainage, Drainage Improvement or Consolidated Drainage Districts (RCW [85.38.170](#)).** On or before December 1st each year, the governing body must adopt a resolution approving the budget and special assessments sufficient to finance the budget. A copy of the resolution must be forwarded immediately to the county commissioners.
- **Flood Control Districts (RCW [86.09.466](#)).** On or before November 1st each year, the board must adopt a budget including the amount of funds necessary. The district must submit this budget for approval by the county commissioners, who may accept the budget as submitted or revised. The district's assessments for the year are limited to the approved budget. The budget shall only be approved after a public hearing with notice per RCW [36.32.120\(7\)](#).
- **Flood Control Zones (RCW [86.15.140](#)).** Annually, at the same time that county budgets are required to be prepared, the board of supervisors must adopt a budget. The detail of the budget is specified by the state statute.

- **Library Districts (RCW [27.12.210](#))**. Annually, prepare and certify a budget to deliver to the county "in ample time" for the county to levy taxes.
- **Sewerage Improvement Districts (RCW [85.38.170](#))**. On or before December 1st each year, the governing body must adopt a resolution approving the budget and special assessments sufficient to finance the budget. A copy of the resolution must be forwarded immediately to the county commissioners.

2.4.3.30 Requirements for local governments that **are not** limited to expenditures within their budget are as follows:

- **Fire Districts (RCW [52.16.030](#))**. Annually, after the county board has equalized the assessments for general tax purposes, the district secretary must prepare and certify a budget for each fund. The budget must be delivered to the county board in ample time for the tax levies to be made for the district.
- **Hospital Districts (RCW [70.44.060\(6\)](#))**. On or before November 1st, the superintendent must prepare and submit a proposed budget to the district commission. The district must publish a notice of a public hearing once a week for two consecutive weeks in a newspaper printed in and of general circulation of the county that states the date, time, and place the commission body will meet to discuss the budget. The hearing must be held on or before November 15th. At the conclusion of the hearing, the commission must adopt a resolution approving the budget. *Note: Hospital districts are not required to amend their budgets if actual expenditures exceed those budgeted.*
- **Housing Authorities**. Not required by state law to create or follow a budget. However, authorities are required to create budgets for most of the federal grants they receive. The authority's responsibilities for these budgets would be a matter of grant compliance.
- **Irrigation/Reclamation Districts (RCW [87.80.140](#))**. Not required by state law to create or follow a budget. However, Boards of Joint Control established under Chapter [87.80](#) RCW must prepare annual budgets per RCW [87.80.140](#) on or before the month of September each year.
- **Port Districts (Chapter [53.35](#) RCW)**. On or before the September 15 each year, port commission must prepare a preliminary budget showing estimated revenues and expenses. Between September 15 and the first Tuesday (following the first Monday) in October, the port must advertise, hold a hearing and adopt a final budget by resolution. The port has until the

first Wednesday (following the first Monday) in October to submit a certified copy of the budget to the county. However, ports are not required to limit expenses to budgeted amounts.

- **Public Development Authorities.** Not specifically required by state law to create or follow a budget. However, PDAs operations and funds are subject to the creating government's limitations and budgeting restrictions.
- **Public Facilities Districts.** As a proprietary fund, PFDs are not subject to budgeting requirements; they are not required by state law to create or follow a budget.
- **Public Utility Districts (RCW 54.16.080).** *If property taxes are levied*, a budget is required, although the PUD is not required to limit expenses to budgeted expenses. On or before the first Monday in September, the district must prepare a preliminary budget. A notice of the budget hearing must be published at least two consecutive weeks in a newspaper of general circulation within the county. The hearing must occur on the first Monday in October, at which the commission must adopt the budget by resolution.
- **Water/Sewer Districts.** As a proprietary fund, water-sewer districts are not subject to budgeting requirements.

### Budget Amendments

2.4.3.40 For governmental funds (except those types specifically identified above in 2.4.3.30), budgeted appropriations are legally binding. This means that the government cannot spend more than the amount budgeted. As new information becomes available throughout the year, the government can amend (increase) the budget through formal processes. Budget compliance is determined at the end of the fiscal period. Therefore, amendments may be done at any time during the fiscal period, but cannot be done after the fiscal period. If the entity adopts a biennial budget, amendments may be made at any time during the biennium. Regardless, budgetary authority must be in place **before** actual expenditures are made.

The following local governments have specific requirements for adoption of supplemental budgets:

- **Flood Control Zones (RCW 86.15.140).** If additional funds become available, a supplemental budget may be done covering additional authorized improvements. Supplemental budgets shall only be approved after a public hearing with notice per RCW 36.32.120(7).

- **Port Districts (RCW [53.35.050](#))**. Supplemental budgets may only be adopted by resolution subsequent to a hearing that is advertised between 5 and 15 days in advance of the hearing.

## Budget Process

### 2.4 Budget Compliance

#### 2.4.2 Budget Process

2.4.2.10 The budgetary process encompasses a number of different activities and decisions over a period of several months. See the budget calendar below for cities and counties. Similar steps can be used to develop all types of budgets.

<b>BUDGET CALENDAR</b>			
	<b>Cities</b>	<b>Counties</b>	
<b>Steps in Budget Preparation</b>			
1	<b>BUDGET ESTIMATES</b> Department heads are requested by clerk to prepare estimates of revenue and expenditures for the next fiscal year.	On or before the second Monday of the fourth month prior to the beginning of the city's/town's next fiscal year (i.e., September).	On or before the second Monday in July.
		RCW <a href="#">35.33.031</a> (2nd, 3rd, towns, 1st class<300,000)	RCW <a href="#">36.40.010</a>
		RCW <a href="#">35.34.050</a> (Biennial Budgets)	
		RCW <a href="#">35A.33.030</a> (Code Cities)	
		RCW <a href="#">35A.34.050</a> (Code Cities - Biennial Budgets)	

2	<p><b>BUDGET ESTIMATES</b> Estimates are to be filed with the city clerk/county auditor.</p>	On or before the fourth Monday in September.	On or before the second Monday in August.
		RCW <a href="#">35.33.031</a> (2nd, 3rd, towns, 1st class<300,000)	
		RCW <a href="#">35.34.050</a> (Biennial Budgets)	RCW <a href="#">36.40.010</a>
		RCW <a href="#">35A.33.030</a> (Code Cities)	
		RCW <a href="#">35A.34.050</a> (Code Cities - Biennial Budgets)	
3	<p><b>PROPOSED PRELIMINARY BUDGET</b> Estimates are presented to the chief administrative officer for modification, revision, or additions.</p>	On or before the first business day in October.	County auditor or chief financial officer shall prepare the county budget.
		RCW <a href="#">35.33.051</a> (2nd, 3rd, towns, 1st class<300,000)	RCW <a href="#">36.40.040</a>
		RCW <a href="#">35.34.070</a> (Biennial Budgets)	
		RCW <a href="#">35A.33.050</a> (Code Cities)	
		RCW <a href="#">35A.34.070</a> (Code Cities - Biennial Budgets)	
4	<p><b>PRELIMINARY BUDGET</b> Chief administrative officer provides the legislative body with:</p>	(a) Revenue estimates (setting of levies) due no later than the first Monday in October.	(a) Revenue estimates are part of the preliminary budget process and due when preliminary budget is due. See next section.
	(a) Estimates of revenues (setting of levies),	RCW <a href="#">35.33.135</a> (2nd, 3rd, towns, 1st class<300,000)	RCW <a href="#">36.40.040</a> ; RCW <a href="#">36.40.090</a>



		RCW <a href="#">35.34.230</a> (Biennial Budgets)	
		RCW <a href="#">35A.33.135</a> (Code Cities)	
		RCW <a href="#">35A.34.230</a> (Code Cities - Biennial Budgets)	
	(b) Clerk's proposed preliminary budget, and	(b) Preliminary budget at least 60 days before the beginning of the next fiscal year and,	(b) Preliminary budget submitted by the auditor to the Board of County Commissioners on or before the 1st Tuesday in September for adoption of the preliminary budget.
	(c) Copies of the preliminary budget are made available to the public.	(c) Copies are made available to the public not later than six weeks before the beginning of the city's next fiscal period.	(c) Copies of the preliminary budget are available to the public not later than two weeks immediately preceding the first Monday in October.
		RCW <a href="#">35.33.055</a> (2nd, 3rd, towns, 1st class<300,000)	RCW <a href="#">36.40.050</a> ; RCW <a href="#">36.40.060</a>
		RCW <a href="#">35.34.080</a> (Biennial Budgets)	
		RCW <a href="#">35A.33.052</a> (Code Cities)	
		RCW <a href="#">35A.34.080</a> (Code Cities - Biennial Budgets)	
5	<b>NOTICE OF PUBLIC HEARING</b> Clerk publishes notice of filing of preliminary budget with city clerk and publishes notice of public hearing on final budget once a week for two consecutive weeks.	Published no later than the first two weeks in November.	Notice shall be published once each week for two consecutive weeks immediately following adoption of the preliminary budget.

		RCW <a href="#">35.33.061</a> (2nd, 3rd, towns, 1st class<300,000)	RCW <a href="#">36.40.060</a>
		RCW <a href="#">35.34.100</a> (Biennial Budgets)	
		RCW <a href="#">35A.33.060</a> (Code Cities)	
		RCW <a href="#">35A.34.100</a> (Code Cities - Biennial Budgets)	
6	<b>PUBLIC HEARING</b> Budget hearing is held.	On or before the first Monday of December, and may be continued from day to day but not later than the 25th day prior to the commencement of the new fiscal year.	On the first Monday in October.
		RCW <a href="#">35.33.071</a> (2nd, 3rd, towns, 1st class<300,000)	RCW <a href="#">36.40.070</a>
		RCW <a href="#">35.34.110</a> (Biennial Budgets)	
		RCW <a href="#">35A.33.070</a> (Code Cities)	
		RCW <a href="#">35A.34.110</a> (Code Cities - Biennial Budgets)	
7	<b>FINAL BUDGET</b> Adoption of budget for next fiscal year.	Following the conclusion of the hearing and prior to the beginning of the fiscal year, the legislative body shall by ordinance adopt the budget in its final form.	At the conclusion of the budget hearing, the county legislative authority shall by resolution adopt the budget.
		A copy of the finalized budget must be sent to the Association of Washington Cities.	A copy of the finalized budget must be sent to the State Auditor's Office.
		RCW <a href="#">35.33.075</a> (2nd, 3rd, towns, 1st class<300,000)	RCW <a href="#">36.40.080</a>
		RCW <a href="#">35.34.120</a> (Biennial Budgets)	
		RCW <a href="#">35A.33.075</a> (Code Cities)	
		RCW <a href="#">35A.34.120</a> (Code Cities - Biennial Budgets)	

**BUDGET CALENDAR**

**Which funds need budgets?**

2.4.2.20 Generally, all governmental funds including the general fund (also called the current expense fund) and special revenue funds of a local government must have annual/biennial appropriated budgets. Most debt service and capital project fund budget requirements are met by the continuing appropriation contained in the enabling legislation. These funds may not need annual/biennial appropriated budgets. Which funds need budgets?

2.4.2.30 Expenses of proprietary, internal service and fiduciary funds are not considered to be appropriations and therefore are only subject to budgeting requirements as required by the government's policy.

2.4.2.40 Fiduciary and permanent funds are subject to the trust agreement and their use is restricted by such.

2.4.2.50 Local governments may separately account for different aspects of a legal fund in several "sub-funds" on their general ledger for managerial purposes and roll-up these funds for financial reporting purposes. The minimum level of detail for budget purposes is the legal fund level.

2.4.2.60 Budgeted expenditures (or estimated expenses) should be limited to the amount of budgeted revenues plus the beginning fund balance. Governments are not authorized to appropriate (or estimate) more resources for expenditures than are available. Note that this requirement only applies at the legal fund level. Entities may budget a negative fund balance for departments, programs or sub-funds so long as the combined fund balance for the legal fund is positive.

### **What constitutes appropriations?**

2.4.2.70 All final amounts budgeted as expenses, expenditures, transfers and other financing uses for a fund or department is the appropriation. The government cannot legally exceed this amount. Ending fund balance and nonrevenues (BARS 508 and 58X, if shown on the budget) would not be considered an appropriation. Only line items shown as expenditures (BARS 51X-57X and 59X) would be considered appropriations.

# Accounting

## Accounting Principles and Internal Control

### Fund Types and Accounting Principles

#### 3.1 Accounting Principles and Internal Controls

##### 3.1.1 Fund Types and Accounting Principles

3.1.1.10 The following principles of accounting and financial reporting are based on those set forth in the Governmental Accounting Standards Board's (GASB) [\*Codification of Governmental Accounting and Financial Reporting Standards\*](#). The BARS manual permits accounting and financial reporting that conforms to these principles in all respects and requires GAAP municipalities to account and report in conformity with these principles, except that the annual report required is not as extensive as the Comprehensive Annual Financial Report (CAFR).

##### 3.1.1.20 ACCOUNTING AND REPORTING CAPABILITIES

A governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities at the government in conformity with generally accepted accounting principles; and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

##### 3.1.1.30 FUND ACCOUNTING SYSTEMS

A governmental accounting system should be organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. Fund financial statements should be used to report detailed information about primary government, including its blended component units. The focus of governmental and proprietary fund financial statements is on major funds.

##### 3.1.1.40 TYPES OF FUNDS

In fund financial statements, governments should report governmental, proprietary, and fiduciary funds to the extent that they have activities that meet the criteria for using these funds.

Presented below is a system to classify all funds used by local government and the assignment of code numbers to identify each type of fund. A three digit code is used: the first digit identifies the fund type and the next two digits will be assigned by the governmental unit to identify each specific fund.

Governmental Funds**Code 000**

General (Current Expense) Fund - should be used to account for and report all financial resources not accounted for and reported in another fund.

Although a local government has to report only one general fund in its external financial reports, the government can have multiple general *subfunds* for its internal managerial purposes. These managerial subfunds have to be combined into one general fund for external financial reporting.

**Code 100**

Special Revenue Funds - should be used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. *Restricted* revenues are resources externally restricted by creditors, grantors, contributors or laws or regulations of other governments or restricted by law through constitutional provisions or enabling legislation (similar to restricted component of net position used in government-wide reporting). *Committed* revenues are resources with limitations imposed by the highest level of the government, and where the limitations can be removed only by a similar action of the same governing body. Revenues do not include other financing sources (long-term debt, transfers, etc.).

The term *proceeds of specific revenue sources* establishes that one or more specific restricted or committed revenues should be foundation for a special revenue fund. They should be expected to continue to comprise a substantial portion of the inflows reported in the fund. While [GASB Statement 54](#) has not provided a numeric range for *substantial* portion of inflows, it was recommended that at least 20 percent is a reasonable limit for reporting a special revenue fund. Local governments need to consider factors such as past resource history, future resource expectations and unusual current year inflows such as debt proceeds in their analysis.

They may use the calculation below to determine whether an activity would qualify for reporting as a special revenue fund.

$$\text{Substantial portion of inflows} = \frac{(\text{restricted revenues} + \text{committed revenues})}{\text{total resources* reported in the fund}}$$

\*Total resources would include all revenues and other financing sources.

Other resources (investment earnings and transfers from other funds, etc.) also may be reported in the fund if these resources are restricted, committed, or assigned to the specific purpose of the fund.

Governments should discontinue reporting a special revenue fund, and instead report the fund's remaining resources in the general fund, if the government no longer expects that a substantial portion of the inflows will derive from restricted or committed revenue sources.

The Statement requires all revenue to be recognized in the special revenue fund. If the resources

are initially received in another fund, such as the general fund, and subsequently remitted to a special revenue fund, they should not be recognized as revenue in the fund initially receiving them. They should be recognized as revenue in the special revenue fund from which they will be expended. So, the local governments can either receive resources directly into the special revenue fund, or account for the resources as agency deposits in the receiving fund and, after remitting them, recognize them as revenue to the special revenue fund.

Special revenue funds should not be used to account for resources held in trust for individuals, private organizations, or other governments.

The general fund of a blended component unit should be reported as a special revenue fund.

The state statutes contain many requirements for special funds to account for different activities. The legally required funds do not always meet GAAP standards for external reporting. So, while the local governments are required to follow their legal requirements, they will have to make some adjustment to their fund structure for external financial reporting.

### **Code 200**

Debt Service Funds - should be used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds should be used to report resources if legally mandated. Financial resources that are being accumulated for principal and interest maturing in future years also should be reported in debt service funds. The debt service transactions for a special assessment for which the government is not obligated in any matter should be reported in an agency fund. Also, if the government is authorized, or required to establish and maintain a special assessment bond reserve, guaranty, or sinking fund, [GASB Statement 6](#) requires using a debt service fund for this purpose.

*Note:* Debt service funds should not be used in proprietary funds (400 and 500). Use enterprise funds (400) or internal service (500) for debt payments related to utilities and other business type activities.

### **Code 300**

Capital Projects Funds - should be used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities or other capital assets. Capital outlays financed from general obligation bond proceeds should be accounted for through a capital projects fund. Capital project funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments (private-purpose trust funds).

*Note:* Capital project funds should not be used in proprietary funds (400 and 500). Use enterprise funds (400) or internal service (500) for capital payments related to utilities and other business type activities.

### **Code 700**

Permanent Funds – should be used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government’s programs – that is for the benefit of the government or its citizens (public-purpose). Permanent funds do not include private-purpose trust funds which account for resources held in trust for individuals, private organizations, or other governments.

### Proprietary Funds

#### **Code 400**

Enterprise Funds – may be used to report any activity for which a fee is charged to external users for goods or services. Enterprise funds are required for any activity whose principal revenue sources meet any of the following criteria:

- Debt backed solely by a pledge of the net revenues from fees and charges.
- Legal requirement to recover cost. An enterprise fund is required to be used if the cost of providing services for an activity including capital costs (such as depreciation or debt service) must be legally recovered through fees or charges.
- Policy decision to recover cost. It is necessary to use an enterprise fund if the government’s policy is to establish activity fees or charges designed to recover the cost, including capital costs (such as depreciation or debt service).

These criteria should be applied in the context of the **activity’s principal revenue source**.

The term **activity** generally refers to programs and services. This term is not synonymous with *fund*. As a practical consequence, if an activity reported as a separate fund meets any of the three criteria, it should be an enterprise fund. Also, if a “multiple activity” fund (e.g., general fund) includes a significant activity whose principal revenue source meets any of these three criteria, the activity should be reclassified as an enterprise fund.

The determination of an activity’s **principal revenue source** is a matter of professional judgement. A good indicator of the activity’s significance may be comparing pledged revenues or fees and charges to total revenue. For example, consider a county auditor’s office that charges fees to provide a payroll service to various taxing districts. Even if the fee is meant to cover the cost of the service, the county auditor function as a whole is primarily supported with tax dollars from the general fund. It would be allowable in this case to leave the activity all within general fund.

Finding an appropriate fund type requires a careful analysis since there is not always a clear choice. For example, building permit fees may be accounted for in the general fund or a special revenue fund in certain circumstances, such as when they are partially supported by taxes. However, if there is a pricing policy to recover the cost of issuing those individual building permits, they should be reported in an enterprise fund.

In addition, GAAP mandate the use of enterprise funds for the separately issued financial statement of public-entity risk pools. Public-entity risk pools also are accounted for as enterprise funds when they are included within a sponsoring government’s report, provided the sponsor is not the

predominant participant in the arrangement. Otherwise, they can use the general fund.

Separate funds should not be reported for bond redemption, construction, reserves, or deposits, for any utility that is accounted for on the full accrual basis, using either the BARS accounts or a nationally recognized utility chart of accounts such as FERC or NARUC. Separate funds should not be reported even though bond covenants may stipulate a *bond reserve fund*, *bond construction fund*, etc. The bond covenant use of the term *fund* is not the same as the use in governmental accounting. For bond covenants, *fund* means only a segregation or separate account, not a self-balancing set of accounts. (See account 150 in the general ledger chart of accounts.)

### **Code 500**

Internal Service Funds - may be used to report any activity that provides goods or services to other funds, departments or agencies of the government, or to other governments, on a cost-reimbursement basis. Internal service funds should be used only if the reporting government is the predominant participant in the activity. Otherwise, the activity should be reported in an enterprise fund.

### Fiduciary Funds

#### **Code 600**

Fiduciary Funds - should be used to account for assets held by a government in a trustee capacity or as a custodian for individuals, private organizations, other governmental units, and/or other funds. These include (a) investment trust funds, (b) pension (and other employee benefit) trust funds, (c) private-purpose trust funds, and (d) custodial funds.

#### **Code 600-609**

Investment Trust Funds - should be used to report fiduciary activities from the external portion of investment pools and individual investment accounts that are held in a trust that meets the following criteria: the assets are (a) administered through a trust in which the government itself is not a beneficiary, (b) dedicated to providing benefits to recipients in accordance with the benefit terms, and (c) legally protected from the creditors of the government.

#### **Code 610-619**

Pension (and Other Employee Benefit) Trust Funds - should be used to report fiduciary activities for the following:

- Pension plans and OPEB plans that are administered through trusts that meet the criteria in paragraphs 3 of [GASB Statement 67](#) or paragraph 3 of [GASB Statement 74](#), respectively.
- Other employee benefit plans for which (1) resources are held in trust that meets the following criteria: the assets are (a) administered through a trust in which the government itself is not a beneficiary, (b) dedicated to providing benefits to recipients in accordance with the benefit terms, and (c) legally protected from the creditors of the government **and** (2) contributions to the trust and earnings on these contributions are irrevocable.

#### **Code 620-629**



Private-Purpose Trust Funds - should be used to report all fiduciary activities that (a) are not required to be reported in pension (and other employee benefit) trust funds or investment trust funds, and (b) are held in a trust that meets the following criteria: the assets are (a) administered through a trust in which the government itself is not a beneficiary, (b) dedicated to providing benefits to recipients in accordance with the benefit terms, and (c) legally protected from the creditors of the government.

**Code 630-698**

Custodial Funds - should be used to report all fiduciary activities that are not required to be reported in pension (and other employee benefit) trust funds, investment trust funds or private purpose trust funds. The external portion of the investment pools that are not held in trust that meets criteria listed above should be reported in a separate external investment pool fund column under the custodial funds classification.

**Code 699**

External Investment Pool Fund - The external portion of the investment pools that are not held in trust and meet criteria listed above. Although this is consider a custodial fund, it should be reported in a separate external investment pool fund column under the custodial funds classification.

NOTE: The custodial funds are required to be used by business-type activities and enterprise funds, if the assets, upon receipt, are normally expected to be held for more than three months.

**3.1.1.50 NUMBER OF FUNDS**

Governments should establish and maintain those funds required by law and sound financial administration. Only the minimum number of funds consistent with legal and operating requirements should be established. Using numerous funds results in inflexibility, undue complexity and inefficient financial administration.

Local governments should periodically undertake a comprehensive evaluation of their fund structure to ensure that individual funds that became superfluous are eliminated from accounting and reporting.

Elected officials should be educated to the fact that accountability may be achieved effectively and efficiently by judicious use of department, program and other available account coding or cautious use of managerial (internal) funds.

**3.1.1.60 REPORTING CAPITAL ASSETS**

A clear distinction should be made between general capital assets and capital assets of proprietary and fiduciary funds. Capital assets of proprietary funds should be reported in both the government-wide and fund financial statements. Capital assets of fiduciary funds should be reported only in the statement of fiduciary net position. All other capital assets of the government are general capital assets. They should not be reported as assets in governmental funds but should be reported in the governmental activities column in the government-wide statement of net position. The *Capital Assets*

(3.3.9 - 3.3.11) sections of the BARS manual provide additional information regarding accounting and reporting of capital assets.

#### 3.1.1.90 REPORTING LONG-TERM LIABILITIES

A clear distinction should be made between fund long-term liabilities and general long-term liabilities. Long-term liabilities directly related to and expected to be paid from proprietary funds should be reported in the proprietary fund statement of net position and in the government-wide statement of net position. Long-term liabilities directly related to and expected to be paid from fiduciary funds should be reported in the statement of fiduciary net position. All other unmatured general long-term liabilities of the governmental unit should not be reported in governmental funds but should be reported in the governmental activities column in the government-wide statement of net position.

### MEASUREMENT FOCUS AND BASIS OF ACCOUNTING IN THE BASIC FINANCIAL STATEMENTS

#### 3.1.1.100 **Government-Wide Financial Statements**

The government-wide statement of net position and statement of activities should be prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions should be recognized when the exchange takes place. Revenues, expenses, assets, and liabilities resulting from nonexchange transactions should be recognized in accordance with the [GASB Statements 24](#) and [33](#).

#### 3.1.1.110 **Fund Financial Statements**

In fund financial statements, the modified accrual or accrual basis of accounting, as appropriate, should be used in measuring financial position and operating results.

- a. Financial statements for governmental funds should be presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues should be recognized in the accounting period in which they become available and measurable. Expenditures should be recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term liabilities, which should be recognized when due.
- b. Proprietary fund statements of net position and revenues, expenses, and changes in fund net position should be presented using the economic resources measurement focus and the accrual basis of accounting.
- c. Financial statements of fiduciary funds should be reported using the economic resources measurement focus and the accrual basis of accounting, except for the recognition of certain liabilities of defined benefit pension plans and certain postemployment healthcare plans.
- d. Transfers should be reported in the accounting period in which the interfund receivable and

payable arise.

NOTE: The various fund types may be grouped in the following manner to more clearly portray their relationship to an accounting basis:

Flow of Current Financial Resources Measurement Focus Funds - use the modified accrual basis:

000	General (Current Expense) Fund
100	Special Revenue Funds
200	Debt Service Funds
300	Capital Projects Funds
700	Permanent Funds

Flow of Economic Resources Measurement Focus Funds - use full-accrual basis:

400	Enterprise Funds
500	Internal Service Funds
600-609	Investment Trust Funds
610-619	Pension (and Other Employee Benefit) Trust Funds
620-629	Private-Purpose Trust Funds
630-698	Custodial Funds
699	External Investment Pool Fund

### 3.1.1.120 BUDGETING, BUDGETARY CONTROL, AND BUDGETARY REPORTING

- a. An annual/biennial budget should be adopted by every government.
- b. The accounting system should provide the basis for appropriate budgetary control.
- c. Budgetary comparison schedules should be presented as required supplementary information for the general fund and for each major special revenue fund that has a legally adopted annual/biennial budget. The budgetary comparison schedule should present both (a) the original and (b) the final appropriated budgets for the reporting period as well as (c) actual inflows, outflows, and balances, stated on the government's budgetary basis.

### 3.1.1.130 TRANSFER, REVENUE, EXPENDITURE, AND EXPENSE ACCOUNT CLASSIFICATIONS

- a. Transfers should be classified separately from revenues and expenditures or expenses in the basic financial statements.
- b. Proceeds of general long-term debt issues should be classified separately from revenues and expenditures in the governmental fund financial statements.

c. Governmental fund revenues should be classified by fund and source. Expenditures should be classified by fund, function (or program), organization unit, activity, character, and principal classes of objects.

d. Proprietary fund revenues should be reported by major sources, and expenses should be classified in essentially the same manner as those of similar business organizations, functions, or activities.

e. At a minimum, the statement of activities should present:

1. Activities accounted for in governmental funds by function, to coincide with the level of detail required in the governmental fund statement of revenues, expenditures, and changes in fund balances.
2. Activities accounted for in enterprise funds by *different identifiable activities*.

#### 3.1.1.140 COMMON TERMINOLOGY AND CLASSIFICATION

A common terminology and classification should be used consistently throughout the budget, the accounts, and the financial reports of each fund.

#### 3.1.1.150 ANNUAL FINANCIAL REPORTS

a. General purpose external financial reports should be prepared and published. Governments engaged in governmental and business-type activities should include, at a minimum:

(1) Management's discussion and analysis (MD&A).

(2) Basic financial statements. The basic financial statements should include:

- Government-wide financial statements.
- Fund financial statements.
- Notes to the financial statements.

(3) Required supplementary information (RSI) other than MD&A.

Governments engaged only in business-type activities should present only the financial statements required for proprietary funds. They should include:

(1) Management's discussion and analysis (MD&A)

(2) Proprietary fund financial statements consisting of:

- Statement of net position
- Statement of revenues, expenses, and changes in fund net position
- Statement of cash flows

(3) Notes to the financial statements

(4) Required supplementary information (RSI) other than MD&A, if applicable.

b. The statements and reports listed above follow national standards of financial reporting. They should not be confused with legal reporting requirements, which are prescribed by the State Auditor's Office for all local governments in Washington State. The legal requirements are consistent with these national standards, but they are not identical. Specific legal reporting requirements are contained in reporting part of this Manual.

c. A comprehensive annual financial report may be prepared and published, covering all activities of the primary government (including its blended component units) and providing an overview of all discretely presented component units of the reporting entity including introductory section, management's discussion and analysis (MD&A), basic financial statements, required supplementary information other than MD&A, combining and individual fund statements, schedules, narrative explanations, and statistical section. The reporting entity is the primary government (including its blended component units) and all discretely presented component units.

d. The financial reporting entity consists of (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's basic financial statements to be misleading or incomplete. The reporting entity's government-wide financial statements should display information about the reporting government as a whole distinguishing between the total primary government and its discretely presented component units as well as between the primary government's governmental and business-type activities. The reporting entity's fund financial statements should present the primary government's (including its blended component units, which are, in substance, part of the primary government) major funds individually and nonmajor funds in the aggregate. Funds and component units that are fiduciary in nature should be reported only in the statements of fiduciary net position and changes in fiduciary net position.

e. The nucleus of a financial reporting entity usually is a primary government. However, a governmental organization other than a primary government (such as a component unit, joint venture, jointly governed organization, or other stand-alone government) serves as the nucleus for its own reporting entity when it issues separate financial statements. For all of these entities, the provisions the [GASB Statement 14](#) should be applied in layers *from the bottom up*. At each layer, the definition and display provisions should be applied before the layer is included in the financial statements of the next level of the reporting government.

## Internal Control

### 3.1 Accounting Principles and Internal Control

#### 3.1.3 Internal Control

##### Purpose and Definition of Internal Controls

3.1.3.10 Internal control refers to the means by which management runs its organization and achieves organizational objectives.

The Government Accountability Office (GAO) publishes Standards for Internal Control in the Federal Government, also known as the “Green Book,” which provides a comprehensive conceptual framework for designing, implementing and evaluating a government’s system of internal control. The Green Book is not authoritative for Washington governments, but is the basis for this section of the BARS manual and represents a resource for local governments. The Green Book is compatible with similar guidance on internal control published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and is referenced in professional auditing standards and Uniform Guidance for federal grants.

3.1.3.20 Internal control is a process designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations performance  
Compliance with applicable laws and regulations and safeguarding of public resources
- Reliability of financial reporting

3.1.3.30 A government's management and governing body are responsible for its performance, compliance and financial reporting. Therefore, the adequacy of internal controls is to provide reasonable assurance in achieving these objectives is also the responsibility of management, with oversight from the governing body. The governing body has *ultimate* responsibility for ensuring adequate controls to achieve objectives, even though *primary* responsibility has been delegated to management. Since management and the governing body are assumed to work in harmony, both parties are collectively referred to as “management” throughout the rest of this section.

The State Auditor’s Office is not part of a local government’s internal control system and cannot be a replacement or supplement to an adequate system of internal control. In accordance with Washington law, the State Auditor’s Office also provides certain guidance, resources and educational materials. Such materials do not relieve management of their responsibility to evaluate the relevance of such information and decide whether and how to apply it in the context of their government. The role of the auditor is to provide independent accountability and assurance to the public and the government’s stakeholders. However, this independence assurance, along with any recommendations provided by the auditor, also represents valuable feedback to management.

3.1.3.40 An effective system of internal control is composed of five interrelated components, as

follows:

1. Control environment - The tone set by management that influences the control consciousness of staff. Control environment includes communication of integrity and ethical values, commitment to ensure that staff are competent, management's philosophy and operating style, extent of participation by the governing board in scrutinizing activities and holding management accountable, and human resource practices (hiring, organization, development, evaluation, promotion and remedial action).
2. Risk assessment - Management's identification and analysis of relevant risks to achievement of its objectives, forming a basis for determining how the risks should be addressed or controlled. Risk assessment includes identification of internal and external risks to the achievement of objectives, such as new contracts or grants, changing regulations and accounting standards, new technology, new personnel, new or discontinued activities and programs, new or discontinued organizational policies and procedures, obsolescence of facilities, and so on. Risk assessment also includes evaluation of risks and determining how to best address them.
3. Information and communication - Systems to support the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities. This encompasses the organization's methods of capturing and sharing information as well as its software, including its accounting information systems.
4. Control activities - Specific policies or procedures that directly address risks related to the achievement of objectives. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities such as approvals, reviews, reconciliations, segregation of duties, performance measurement, tracking events or assets, etc.
5. Monitoring - Management's review of the operation of internal controls over time. Monitoring allows the system of internal controls to be self-sustaining and self-correcting over time. Monitoring is accomplished through ongoing monitoring activities, separate evaluations, or a combination of the two. Ongoing monitoring occurs during the course of operations when management observes controls and can discern whether they were effective. Separate evaluations occur when management reviews and assesses a particular control to determine if it has been effective.

3.1.3.50 Internal control should be viewed as an integral or inherent part of the policies, systems and procedures management uses to operate and oversee the organization. This is not to say effective control will never require additional or incremental effort. Rather, controls exist to provide reasonable assurance about the achievement of objectives and so should be integrated into all the organization's fundamental business processes. Controls are normally most effective when built into the government's infrastructure rather than being treated as supplemental or separate processes. In the same way, implementation and monitoring of internal controls should not be viewed as a singular event, but rather a continuous or iterative process.

3.1.3.60 Since internal control is as fundamental as the objectives the controls relate to, the need for effective control is applicable to all organizations, regardless of size. While small entities may implement internal controls differently than larger ones, effective internal control is still both

necessary and possible.

### **Determining what specific controls to implement**

3.1.3.70 It is a management decision as to what specific controls to implement and how such controls are designed and operated.

3.1.3.80 There are many ways to attain effective internal control. Governments and their control needs vary considerably by statutory purpose, regulations, activities and programs, size, organizational structure, contractual and program structures, technology and information systems, expertise of staff and the policies of the governing body. In addition, there are often many different methods or combinations of methods that would result in effective internal control for any given situation. Thus, while all entities should have effective internal control, the specific controls in place may look very different from one government to another.

3.1.3.90 When choosing among different methods of achieving effective control, management often considers the costs and benefits of different control options.

- Costs - Certain controls may be less costly or require less staff resources , or may allow the process to operate faster
- Effect on other control or policy objectives - Certain controls may be able to achieve multiple objectives or may also serve to support the organization's values or operating principles.
- Organizational limitations - Control options may be limited by organizational or program policy or structure, expertise of staff, software limitations and other decisions made by management. However, if such factors limit options for effective control to only those that management believes are infeasible or not cost effective, management should consider how it might change the limiting factors rather than ignore the need for effective control.

3.1.3.100 The Washington State Auditor's Office does not require specific controls to be implemented by governments. Management is only required to ensure that whatever controls they choose to implement be adequate to provide reasonable assurance regarding compliance and financial reporting risks. The burden of demonstrating the adequacy of internal controls rests on management, since management is responsible both for the achievement of objectives and the determination of the design and operation of controls.

### **Controls over Compliance**

3.1.3.110 This objective refers to compliance with laws, regulations, contracts, grant agreements and government policies, including the requirement to safeguard public resources against misappropriation, misuse and loss.

3.1.3.120 In meeting this objective, the government should have controls that accomplish the following key functions:

- Identification of requirements - Controls should ensure that requirements are identified and that employees whose actions may affect compliance are aware of applicable requirements.



When statutory, regulatory or contractual provisions are unclear, the government should seek clarification through legal counsel, research or communication with regulatory agencies or contracting parties.

- Compliance – Controls should prevent non-compliance or detect non-compliance in a timely enough manner for the government to remedy the situation. Such controls vary greatly, depending on the nature of the compliance requirement.
- Safeguarding of public resources – Controls should prevent misappropriation or misuse of public resources or detect misappropriation or misuse in a timely manner and assign responsibility to individuals charged with custody of assets. Such controls should cover all receipts and receivables, expenditures and commitments, provisions of goods or services and the safekeeping of all public assets at risk of misappropriation, misuse or loss.

### **Controls over Financial Reporting**

3.1.3.140 This objective refers to fair presentation of financial statements and required schedules in all material respects in accordance with the stated basis of accounting.

3.1.3.150 In meeting this objective, the government should have controls that accomplish the following key functions:

1. Identification of financial events – Controls should ensure financial events and transactions are properly identified and recorded.
2. Properly applying accounting standards – Controls should ensure correct criteria and methodology is applied when accounting for financial events. When the correct method of accounting for or reporting a transaction is unclear, the government should seek clarification by performing research, contracting for accounting assistance, or communicating with the State Auditor’s Office or standard setting bodies.
3. Correctly accounting for all financial events – Controls should ensure that:
  - Only valid transactions are recorded and reported.
  - All transactions occurred during the period are recorded and reported.
  - Transactions are recorded and reported at properly valued and calculated amounts.
  - Recorded and reported transactions accurately reflect legal rights and obligations.
  - Transactions are recorded and reported in the account and fund to which they apply.
4. Preparation of the annual report – Controls should ensure that financial statements and required schedules are properly compiled and prepared from source accounting records. Controls should also ensure correct presentation of statements and schedules.

### **Limitations of Internal Control**

3.1.3.170 No matter how well designed and operated, internal controls cannot provide absolute assurance that the government will achieve its objectives due to inherent limitations. These limitations include the following:

- Judgment - If controls depend on human judgment, the effectiveness of controls may be limited by the experience and qualifications, time available, information available, motivations, and pressures on the person applying the control. Moreover, differences in these factors over time and in different people applying the control may result in inconsistencies in the operation of the control. *This limitation, when applicable, can be mitigated through a good control environment, clear policies or instructions, redundant controls, supporting controls such as check figures or exception reports and adequate monitoring of controls.*
- Breakdowns - Breakdowns could occur due to changes, failure or obsolescence of data, technology, assumptions, procedures, programming or other dependencies that controls may rely upon for effective functioning. *This limitation, when applicable, can be mitigated by thorough risk assessment, redundant controls and adequate monitoring of controls.*
- Collusion - Many controls assume that employees (or certain employees) will not collude. When individuals act together, they may be able to overcome controls. This is typically only a risk when employees have a motivation to overcome controls, such as misappropriation or misuse of public resources. *This limitation, when applicable, can be mitigated by a good control environment, redundant controls and adequate monitoring of controls.*
- Control override - Personnel with responsibility to resolve issues identified by controls may decide to ignore or override prescribed policies or procedures. *This limitation, when applicable, can be mitigated by a good control environment and adequate monitoring of controls.*
- Mistakes - Although internal controls may be designed in such a way as to reduce the likelihood of mistakes, it is always possible that a mistake may be made. *This limitation can be mitigated by a good control environment, redundant controls, automated controls, supporting controls such as check-figures or exception reports, and adequate monitoring of controls.*
- Unforeseen circumstances - Controls may operate incorrectly when faced with unforeseen situations or permutations. *This limitation can be mitigated by thorough risk assessment and adequate monitoring of controls.*
- External factors - Achievement of operational performance objectives (efficiency and effectiveness) may depend on factors outside of the government's control, such as regulation, resource limitations, environmental changes, decisions made by service recipients or stakeholders, actions of key suppliers, customers or program partners, etc. *This limitation can be mitigated by thorough risk assessment.*

3.1.3.180 Although controls are not an absolute guarantee of success, effective internal controls are expected to consistently and reliably achieve objectives, year after year. However, even well-designed controls have a remote possibility of failure. This possibility increases with the number and primacy of external factors, as is often the case for performance objectives.

3.1.3.190 Ultimately, providing reasonable assurance of achieving compliance and financial

reporting objectives is within the government's control and depends primarily on how well controls are designed and operated. Achievement of operational performance objectives also depends in large part on effective internal controls. By implementing effective controls a government can have reasonable assurance that it is doing all it can to meet its objectives.

## Bank Reconciliations

### 3.1. Assets

#### 3.1.9 Bank Reconciliations

##### 3.1.9.5 Purpose

The purpose of a bank reconciliation is to compare cash and investment **balances** and **activity** (also known as a “proof of cash”) according to the bank to the government’s accounting records and reconcile or follow up on any differences.

Depending on the government’s organization, the bank reconciliation process may be done in stages or parts. For example, separate reconciliations may be done on different schedules or by different people for checking accounts, investment accounts or zero balance accounts, which are later aggregated as part of a global reconciliation.

Bank reconciliations are a necessary control to safeguard cash against fraud and losses and to ensure the accuracy of accounting records. Reconciliation of cash activity is necessary to demonstrate that activity is valid and to safeguard against certain types of fraud. A global reconciliation is necessary to effectively compare and reconcile bank accounts to accounting records since individual bank accounts do not normally correspond exactly to individual cash accounts in the accounting records. It also demonstrates the completeness of the reconciliation by showing that all bank accounts and all cash accounts in the accounting records are able to be compared.

In this section, “cash” is inclusive of cash and investments. “Bank accounts” and “bank reconciliations” are likewise inclusive of investment accounts (such as certificates of deposit and bonds), zero-balance accounts (such as clearing accounts described in [BARS 3.8.6](#) and transmittal accounts described in [BARS 3.6.1](#)) and accounts kept by fiscal agents. For governments that use the County as their treasurer, bank reconciliations would refer to the reconciliation of the government’s accounting records to the county treasurer’s report.

##### 3.1.9.10 Accounting

Accounting records typically track cash by fund and classification. This does not normally result in a one-for-one relationship between bank accounts and general ledger accounts. In absence of specific legal or contractual requirements, is it not necessary for governments to use separate bank accounts to segregate funds so long as accounting records separately track cash balances by fund in sufficient detail.

Money receipted by fiduciaries or third party vendors on behalf of the government should be considered a cash receipt for the government as described in BARS 3.6.1.60. If such deposits are remitted to the government, they may need to be identified as a deposit in transit on the bank reconciliation. If the government’s funds are receipted and held by others in a fiduciary capacity, the report from the fiscal agent may need to be treated similar to a bank or county treasurer account

during the bank reconciliation process.

Imprest and petty cash funds should be recorded at their authorized amounts as described in BARS 3.8.7. Since these accounts are subject to separate monthly controls, the authorized balance is typically used as a reconciling item between accounting records and bank accounts.

Funds should not have a negative cash balance in the accounting records. Any negative cash balance in the accounting records should be resolved with an interfund loan as described in [BARS 3.9.1](#).

#### 3.1.9.15 Controls

**Governments must document a global bank reconciliation that includes reconciliation of both the ending balance of cash as well as cash activity at least monthly.**

A global bank reconciliation consists of:

1. Compiling the ending balance, receipts and deposits for the month across all bank statements. This will normally be done by creating a schedule to summarize (or series of schedules that are then aggregated, if the reconciliation is done in parts or stages).
2. Compiling the ending balance, additions and deductions for the month for all cash accounts in the accounting records. This will normally be done by running a report from the accounting system.
3. Identifying reconciling items for differences between bank receipts, deposits and ending balance and the corresponding accounting record revenues, expenditures and ending balance. Reconciling items could include any of the following items:
  - a. Timing differences between when a transaction is recorded in the accounting records and when it affects the bank account. For example, some of these reconciling items would include deposits in transit, outstanding items or open period items.
  - b. Bank activity that is not recorded in the accounting records. For example, some of these reconciling items would include transfers between bank accounts or transactions that are netted when recorded in the accounting records.
  - c. Reportable activity recorded in the accounting records that is not a receipt or deposit in the bank records. For example, some of these reconciling items would include interfund transfers, loans or taxes, internal service fund charges, or the difference between gross and net amounts from offsetting agreements.
4. Identifying transactions from the bank accounts need to be recorded in the accounting records. For example, some of these items could include interest earned, bank fees or charges, NSF checks, and unrecorded deposits (such as lockbox transactions, EFTs, or other electronic deposits made directly into the bank account by outside parties).

Accounting records should be updated for all such transactions identified in the bank statements. Unrecorded deposits should be investigated and recorded. If unknown at the time of the reconciliation, they should be recorded to a suspense fund until they can be investigated and resolved as described in BARS 3.6.11.

5. Following up on any unreconciled differences. After adjusting for reconciliations, there should be no further differences between bank statements and accounting records. If there are, research should be performed to determine the cause of the differences - that is, what bank or accounting record transaction is the source of the difference and what does it represent. If it is an error in the accounting records, it should be corrected. If it is a bank error, it should be communicated and resolved with the bank.

Governments should consider more frequent reconciliations, such as daily reconciliations for accounts with a large amount of activity or that are at higher risk for fraud or invalid payments, such as the main checking account for a larger government.

SAO does not prescribe how governments might organize their bank accounts or the corresponding accounting records. However, the number and type of accounts, banking practices, organization of accounting records, and the methods, division and stages of reconciliation established by the government should not represent a barrier to effective control.

## Original Supporting Documentation

### 3.1 Accounting Principles and Internal Control

#### 3.1.4 Original Supporting Documentation

3.1.4.10 Local governments are responsible for obtaining and ensuring the integrity and retention of the original vouchers, receipts, and other documents - regardless of physical form - necessary to isolate and prove the validity of every transaction relating to the receipt, use and disposition of public funds or property (RCW [43.09.200](#)). This requirement extends to all accounting entries, including interfund transactions or allocations of overhead costs.

In addition, governments are required to comply with public records retention requirements (Chapter [40.14](#) RCW) and the [Local Government Records Retention Schedule](#) published by the Secretary of State in accordance with RCW [40.14.070](#).

#### Physical Documentation

3.1.4.20 Physical documentation should be recognizable and legible. Internal controls should provide reasonable assurance of the accuracy, durability and availability of physical records.

#### Electronic Documentation

3.1.4.30 Electronic supporting documentation for transactions is appropriate where safeguards exist to ensure that the documentation cannot be changed or altered and that the documentation for as long as it is necessary to retain. In cases where source documents are initiated electronically and the local government's accounting system does not have sufficient controls to ensure the integrity of the data, such electronic records should be printed, reviewed and signed by an appropriate person. The printed records would then be considered the official source document supporting the transaction.

Internal controls ensuring the integrity of data supporting public transactions should include policies and procedures ensuring the accuracy, durability and availability of the data. This would include, but is not limited to, establishing an audit trail and/or system for identification of changes made and users making subsequent modification to the source documents to ensure a proper chain of custody.

See Chapter [434-662](#) WAC for records retention regulations for electronic records.

#### Scanned Documentation

3.1.4.40 Scanned original documents are acceptable to support the receipt; use and disposition of public funds given the above mentioned controls are in place to ensure their integrity, completeness and accuracy. The original imaged source records cannot be destroyed unless the local government has complied with the Secretary of State's *Requirements for the Destruction of Non-Archival Paper Records after Imaging "Scanning and Tossing"* document. This document can be found on the Secretary of State's Records website on the Records Management webpage. Alternatively, the

original imaged source records may also be destroyed if the local government's application requesting early destruction of records after electronic imaging has been approved by the Secretary of State. See Chapter [434-663](#) WAC.

### **Authorization of Transactions**

3.1.4.50 Local governments are responsible for ensuring transactions are properly authorized and have the appropriate type of signature approval. For audit purposes, log-in authentication is an acceptable means of limiting access or segregating duties with user account permissions, establishing accountability and chain of custody for records, and evidencing review or approval. For these controls to be effective, sufficient controls must be in place over user accounts, passwords, sessions, and audit trails or logs.

#### Physical Signature

3.1.4.60 If there is a legal requirement for a signature on an electronic document (i.e. contract, etc.), it can have a digital signature. If a local government chooses to use a digital signature, they are responsible for complying with Chapter [19.360](#) RCW. Effective June 11, 2020, Chapter 19.360 RCW will be repealed and replaced by the [Uniform Electronic Transactions Act \(UETA\)](#).

#### Facsimile Signature

3.1.4.70 Instruments of payments (i.e., check/warrant) can have a legal facsimile signature. A facsimile signature is a reproduction of a signature by engraving, imprinting, stamping or other means. If a local government chooses to use a facsimile signature, they are responsible for complying with Chapter [39.62](#) RCW.

#### Non-Legal Facsimile Signature

3.1.4.80 Documents that do not require a legal signature can be authorized by a non-legal facsimile signature. A non-legal facsimile signature is a reproduction of a signature by engraving, imprinting, stamping, or other means.

#### Log-in Identification

3.1.4.90 A number of accounting applications have been developed to use an individual's log-in identification to authenticate an approval. This can be acceptable if there is no legal requirement for a written signature, if transaction records identify the user, and if there are sufficient user account controls in place to assign accountability for transactions to an individual.



## Sources of GAAP

### 3.1 Accounting Principles and Internal Control

#### 3.1.2 Sources of GAAP

3.1.2.10 There are two primary authoritative sources of generally accepted accounting principles (GAAP) for local governments:

1. GASB - Governmental Accounting Standards Board
2. AICPA - American Institute of Certified Public Accountants

3.1.2.20 The [GASB Statement 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments](#) promulgates the GAAP hierarchy for state and local governments.

3.1.2.30 The GAAP hierarchy, as prescribed by the [GASB Statement 76](#), has two categories of sources of accounting principles. If an accounting treatment is not specified in Category A, a government should consider if it is specified in Category B:

- Category A: Officially established accounting principles – Governmental Accounting Standards Board (GASB) Statements and Interpretations.
- Category B: GASB Technical Bulletins, GASB Implementation Guides and, if specifically made applicable to state and local governmental entities by the American Institute of Certified Public Accountants (AICPA) and cleared by the GASB, AICPA literature. Authoritative GAAP included in Category A and B are periodically incorporated in the Codification of Governmental Accounting and Financial Reporting Standards.

3.1.2.40 In the absence of specific treatment within Category A or B, the state and local governmental entities may consider nonauthoritative accounting literature, but only after consideration is made for a similar transaction or event within Category A or B. Nonauthoritative accounting literature includes, for example, GASB Concepts Statements, the pronouncements of the Federal Accounting Standards Board (FASB), Federal Accounting Standards Advisory Board (FASAB), International Public Sector Accounting Standards Board and International Accounting Standards Board, as well as all AICPA literature not previously cleared by the GASB. Nonauthoritative literature also includes practices that are widely recognized and prevalent in state and local government, literature of other professional associations or regulatory agencies, and accounting textbooks, handbooks, or articles.

#### 3.1.2.50 Ordering Information

GASB Order Department  
1 (800) 748-0659  
[www.gasb.org/store](http://www.gasb.org/store)

AICPA Order Department  
1 (888) 777-7077  
[www.cpa2biz.com](http://www.cpa2biz.com)

## **Assets**

### **Compensating Balances**

#### **3.2 Assets**

##### **3.2.5 Compensating Balances**

3.2.5.10 Some banks may require a government to maintain a predetermined average daily balance in noninterest bearing bank accounts to compensate the bank for handling the government's bank services.

3.2.5.20 A government's procurement of banking services will normally consider costs such as fees, minimum balance and compensating balance requirements compared to benefits such as interest rates, locations and services, along with other factors as described in [MRSC](#) and [GFOA](#) advisory content.

3.2.5.30 As part of their procurement of banking services, governments should consider whether the amount of foregone interest revenue is reasonable in relation to fees avoided in order to ensure the agreement does not represent a gift of public funds.

## Deposits and Investments

### 3.2 Assets

#### 3.2.1 Deposits and Investments

##### INVESTMENT REQUIREMENTS

3.2.1.10 Each municipal corporation should, by action of its governing body, authorize investment of any moneys which are not required for immediate expense and which are in the custody of the county treasurer or other municipal corporation treasurer.

3.2.1.20 State law (primarily RCW [39.59](#), along with RCW [35.39](#) for cities and [36.29](#) for counties) limits the types of investments allowable for local governments. Limitations on eligible investments reflect preservation of capital and liquidity of funds as primary objectives for investment of public funds. In general, local governments may invest in reasonably safe investments, such as:

- Obligations of the federal government, its agencies and government sponsored organizations
- Obligations of Washington State and local governments
- Obligations of other States and local governments located in other states that have one of the three highest credit ratings of a nationally recognized credit agency at the time of purchase
- The Washington State Treasurer's Investment Pool (Chapter [43.250](#) RCW)

Absent statutes specifically authorizing a local government to make an investment in a certain investment type. For example, the following investments are generally not eligible for investment of public funds:

- Corporate stocks
- Corporate bonds
- Foreign government obligations
- Futures, options, swaps and other derivatives
- Real estate or commodities
- Limited partnerships
- Negotiable certificates of deposit
- Certificates of deposit from banks that are not designated as qualified public depositories
- Money market or mutual funds

For a detailed description of eligible and non-eligible investments, along with policy considerations and suggested controls over investing activities, local governments should consult the Office of State Treasurer's [Guide to Public Funds Investing for Local Governments](#).

In addition to restrictions imposed by state law, investments of local governments may be further restricted by policy, contract or regulation. For example, debt covenants or arbitrage requirements may restrict investment of bond proceeds. Local governments should consult with bond counsel for guidance on such restrictions.

## DEPOSIT REQUIREMENTS

3.2.1.60 Except for funds deposited pursuant to a fiscal agency contract with the state fiscal agent or its correspondent bank, no public funds should be deposited in demand or investment deposits except in a public depository located in this state or as otherwise expressly permitted by statute (RCW [39.58.080](#)).

3.2.1.70 WAC [389-12-020\(3\)](#) allows public depositories to arrange for the investment of public funds in certificates of deposit issued by one or more federally insured financial institutions wherever located on behalf of a treasurer provided the funds are initially invested in an authorized Washington public depository.

3.2.1.80 The total deposits of public funds by any treasurer in any one public depository may not exceed that depository's net worth. If a public depository's net worth is reduced, a treasurer may allow public funds on deposit in excess of the reduced net worth to remain until maturity as long as the depository provides collateral equal to one hundred percent of the excess deposits (RCW [39.58.130](#)). Net worth for public depositories may be adjusted by the Public Deposit Protection Commission (PDPC) to reflect the depositories proportional net worth position in Washington State.

3.2.1.90 A financial institution receives designation as a public depository from the PDPC. This designation is readily verified, either from the financial institution (via a letter of authority from the PDPC) or directly from the PDPC. A quarterly list of each public depository and its net worth is published on the Washington State Treasurer's website at [www.tre.wa.gov](http://www.tre.wa.gov).

3.2.1.100 Washington state and federally chartered credit unions may also accept public deposits within limitations set forth in RCW [39.58.240](#). State law allows up to two hundred fifty thousand dollars on deposit for any one depositor of public funds in any one credit union. A quarterly list of each approved credit union and its public deposit balances is also available on the Washington State Treasurer's website.

## County's External Investment Pool

### 3.2 Assets

#### 3.2.2 County's External Investment Pool

This guidance applies only to counties.

3.2.2.10 Generally Accepted Accounting Principles (GAAP) require the use of fiduciary funds to account and report assets held in a trustee or agency capacity for others. Custodial funds are used to account for situations where the government's role is purely custodial. They are most commonly used by counties to account for taxes collected on behalf of special purpose districts. Trust funds normally are subject to a trust agreement that affects the degree of management involvement and length of time that resources are being held. Assets classified as trust or custodial funds cannot be used to support the government's own programs.

3.2.2.20 In accordance with accounting standards, when counties provide investment services to other entities under [RCW 36.29.020](#) whether through investment pool(s) or by individual investment accounts, the county is considered a sponsoring government, and therefore has a fiduciary responsibility for those investments. A county is sponsoring an external investment pool when commingling (pooling) the monies of more than one legally separate entity that are not part of the same reporting entity as the sponsoring government, and invests, on the participant's behalf. This includes investing in the Local Government Investment Pool when all the funds are held in the county's name. When a County Treasurer invests any funds in its custody not required for immediate expenditure, whether or not at the request of a district, the County Treasurer is investing on behalf of the districts. The districts' share in the risk of loss of those investments, so long as the County Treasurer has complied with the statutory requirements in making those investments, and said funds should be reported as an external investment pool by the county.

3.2.2.30 Sometimes resources held in custodial funds are invested in the county's investment pool. For example, the county collects property taxes on behalf of a city/special purpose district within the county and while the county holds the proceeds, the monies are invested in the county's external investment pool. The city/special purpose district may receive investment income, but does not participate in the investment losses of the pool, from the city/special purpose district's perspective, the moneys held by the county are a receivable, not an investment. As such, the county should report in a custodial fund a liability to the city/special purpose district, and value the investments purchased with the city/special purpose district's moneys in accordance with standards.

3.2.2.40 Reporting investments in both investment trust fund and custodial funds will cause duplicative reporting of the same cash.

The earnings generated or losses incurred by the investment pool would increase or decrease liabilities of the custodial funds for the cities/special purpose districts participating in the investment pool.

3.2.2.50 If the county invests the cities/special purpose districts' resources, while holding and before remitting the resources to the cities/special purpose districts and if there is no formal investing agreement, for financial reporting purposes, the county should show these resources not in the investment trust fund, but in the custodial external investment pool (Fund 699).

## Joint Ventures

### 3.2 Assets

#### 3.2.8 Joint Ventures

3.2.8.10 Local governments may cooperate under certain conditions with other local governments. The basis is for mutual advantage to provide services and facilities. This is accomplished in a manner and pursuant to forms of governmental organization that will accord best with geographic, economic, population, and other factors influencing the needs and development of local communities.

3.2.8.20 All cooperative efforts created by State law can be joint ventures. All joint ventures are either joint operating agencies or contracted interlocal agreements. Specific laws dictate other limitations or requirements, depending on the purpose and entity. Descriptions of some cooperative efforts are as follows.

#### Joint Operating Agencies (Chapter [43.52](#) RCW and Chapter [54.44](#) RCW)

3.2.8.30 A joint operating agency (JOA) is a legal entity created between any two or more cities or public utility districts. This agency is a municipal corporation of the state of Washington. A JOA has authority to enter into contracts involving electric energy, fisheries, flood control, and natural resources.

3.2.8.40 Management and control of a JOA vests with the board of directors. The directors are appointed by the legislative body of each member of the JOA.

3.2.8.50 For guidelines and requirements, see Chapter [43.52](#) RCW for operating agencies and Chapter [54.44](#) RCW for nuclear power plants.

3.2.8.60 For accounting treatment, joint operating agencies should be treated as a public utility district (RCW [43.52.391](#)).

#### Interlocal Agreements (Chapter [39.34](#) RCW)

3.2.8.70 An interlocal agreement is a contract entered into between two or more public agencies for joint or cooperative action. This action must be a power, privilege, or authority already capable of being exercised by the public agencies involved, and the manner of financing should be as provided by law. The agreement could establish a separate entity as described below.

3.2.8.80 If the interlocal agreement does establish a separate legal or administrative entity, this entity must be legally created (Insurance Boards RCW [48.62.041](#), RCW [48.62.101](#), Irrigation Districts RCW [87.03.018](#), Hydroelectric Resources RCW [87.03.828](#)). The agreement must specify duration, organization, purpose, manner of financing and methods of termination. Funds of this separate entity would be subject to audit in the manner provided by law for the auditing of public funds.



3.2.8.90 If the interlocal agreement does not establish a separate legal entity by law, the agreement must specify the criteria listed above and must also provide for an administrator or a joint board responsible for administering the cooperative undertaking. Provisions are also required to detail the manner of the joint board in acquiring, holding, and disposing of real and personal property used in the joint undertaking. The joint board is also authorized to establish an operating fund with a county, city, or district treasurer of one of the involved public agencies.

3.2.8.100 The interlocal agreement is filed with the county auditor, and if applicable, a state officer or agency with statutory powers of control.

Chapter [39.34](#) RCW issues various guidelines and requirements applicable to interlocal agreements.

3.2.8.110 For accounting treatment, an interlocal agreement must be evaluated for each member agency to determine whether joint venture treatment is applicable. If joint venture treatment is applicable, see the accounting treatment below. If joint venture treatment is not applicable, interlocal agreement should be footnoted and accounted for in an appropriate fund. Contractual requirements take precedence over accounting requirements (i.e., a contract may require one member to be reporting entity when it does not exercise “oversight responsibility”).

#### Accounting Procedures for the Joint Ventures

3.2.8.120 [GASB Statement 14, \*The Financial Reporting Entity\*](#) defines the joint venture as a legal entity or other organization that results from a contractual agreement and is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain an ongoing financial interest or an ongoing financial responsibility.

3.2.8.130 Joint control means that no single participant has the ability to unilaterally control the financial or operating policies of the joint venture.

3.2.8.140 Ongoing financial interest means an equity interest or any other arrangement that allows a participating government to have access (directly or indirectly) to joint venture’s resources.

3.2.8.150 Ongoing financial responsibility means that the participating government is obligated in some manner for the debts or the funding of the joint venture.

3.2.8.160 Lack of the ongoing financial interest or the ongoing financial responsibility designates the entity as a jointly governed organization, subject to different disclosure requirements.

3.2.8.170 When the number of participants in a joint venture increases their financial responsibility may decrease. [Statement 14](#) does not establish any break point for the determination if the participant is financially responsible or not. A decision, in the marginal cases, is left to the professional judgment of the government.

3.2.8.180 For financial reporting purposes there are two types of joint ventures:

1. Joint ventures whose participants have equity interest.

## 2. Joint ventures whose participants do not have equity interest.

3.2.8.190 The indication of an equity interest is an ownership of shares of the joint venture's stock or other explicit and measurable rights to net resources (usually based on investment of financial or capital resources in the joint venture). To be considered explicit and measurable the rights to the present or future claims to the joint venture's resources and the methods to determine the amounts have to be clearly defined in the joint venture agreement. If equity interest in the joint venture is implied rather than explicitly stated the joint venture participants should consider modifying the agreement to clarify its intent.

### Reporting Equity Interest in Joint Venture:

3.2.8.200 The proper accounting and financial reporting for joint ventures depends on whether the underlying contract creates an explicit, measurable equity interest in some or all of the joint venture's resources. If there is an explicit, measurable equity interest in the joint venture, the government's investment in the joint venture should be reported as a single line item in the government-wide statement of activities. The same treatment applies to the proprietary fund financial statements.

3.2.8.210 In the case of governmental funds, however, an investment in the joint venture should be reported in a governmental fund only to the extent that it represents a financial asset rather than an interest in the underlying capital assets of the joint venture. Joint ventures not involving an explicit, measurable equity interest are reported simply as note disclosures.

3.2.8.220 The following examples illustrate how the provisions of the [GASB Statement 14](#) would be applied to a particular set of hypothetical circumstances.

### Example 1: Twin City Airport Authority

**Facts:** The Twin City Airport Authority was created jointly as a separate legal entity by two cities. At inception, City A contributed 60 percent and City B contributed 40 percent of the initial capital (to purchase land). The cities jointly issued construction revenue bonds and facility revenue bonds to finance construction of the airport. The construction bonds are payable solely from and secured by airport revenues, and the facility bonds are payable solely from and secured by net rent revenues payable from various leases. The cities are not obligated in any manner for the authority debt. The initial capital investments of the two cities are to be returned to the cities by the authority over a period of time not to exceed fifteen years.

The authority is governed by a ten-member board composed of the mayor of each city and three members of City B's city council and five members of City A's city council. Despite the numerical imbalance of the board, the joint venture agreement provides for joint control; that is, both cities must approve the budget, the issuance of debt, and other significant activities.

The cities individually have executed covenants, by ordinance, to levy a maintenance tax (subject to rate limitations) if necessary to insure that the airport will be operated and maintained efficiently.

The authority board has entered into agreements with each airline that uses the airport, providing for adjustments to rentals, fees, and other charges that management believes would preclude losses from being incurred. To date, no maintenance tax has been levied by either city, and the airport has generated sufficient revenues to make annual payments to the cities in accordance with the repayment agreement for their initial capital contributions.

Conclusions: The airport authority is a joint venture because it was created as a separate legal entity and both cities have an ongoing financial responsibility for the entity. The fact that City A appoints a numerical majority of the authority's board is negated by the two cities' agreement for joint control of the authority. The initial capital contributed by the cities has the characteristics of an equity interest, but the agreement with the airport authority, in effect, converts the equity interest to a long-term receivable. Therefore, rather than reporting an equity interest in the joint venture in the general capital assets, the cities would report a receivable in the fund that receives the annual payments from the authority. The cities do, however, have ongoing financial responsibilities for the authority because they have obligated themselves to fund the deficits of the airport by agreeing to levy maintenance tax if needed. The cities would make the required joint venture disclosure.

#### Example 2: Bi-State Port Authority

Facts: Two state governments create a port authority as a separate legal entity. Each state appoints six governing board members for the authority; the chairperson is elected by the twelve members from within the board. The authority is autonomous from a day-to-day operations perspective. Neither state provides start-up funds; the authority's facilities were financed with its own revenue bonds.

Neither state is obligated for the authority's debt and neither state is obligated for its deficits or entitled to its operating surpluses, either directly or indirectly. The authority is financially self-sufficient. It is perpetual and no provisions are made in its charter or by-laws for the distribution of assets at termination.

Conclusions: The authority is a jointly governed organization. It is not a component unit because neither state appoints a voting majority of the authority's governing board. It is not a joint venture because the states do not have an ongoing financial interest or responsibility for the authority. If, however, the states could influence the management of the authority (through veto power over the authority's decisions regarding major projects, for example) to undertake projects that would benefit the states, an ongoing financial interest would exist and the authority would be considered a joint venture. In either case, the states should make the appropriate disclosures about their relationship to the authority.

#### Example 3: Municipal Electric Authority

Facts: Forty-eight cities have formed a municipal electric authority as a public corporation according to state law. The purpose of the authority is to enable small municipal electric systems to efficiently finance, construct, and operate electric power generation and transmission facilities. Each participating city appoints one member to the authority's governing board. Construction of the

authority's facilities was financed by revenue debt of the authority. None of the participants is in any way liable for the authority's debt. The authority bills each participant for usage at rates that are calculated to cover the authority's *cost* as defined in the bond indenture. The rates are structured to systematically provide cash for debt requirements, operating expenses (excluding depreciation and amortization), and reserves as specified by the bond indentures. Each city is bound by contract with the authority to annually purchase a minimum number of kilowatt-hours. The contracts are renewable at the cities' option every three years. Except for the minimum purchase contracts, no participant has any other obligation, entitlement, or residual interest. The authority is financially self-sufficient.

Conclusion: The authority should be reported by participants as a jointly governed organization. None of the participating municipalities has an ongoing financial interest, and because of the large number of participants the cities' purchase contracts with the authority do not represent ongoing financial responsibilities.

## Money Held in Trust

### 3.2 Assets

#### 3.2.4 Money Held in Trust

##### Deposits

3.2.4.10 Governments may require deposits from customers. For example:

- A housing authority may require deposits in relation to public housing activities.
- A public utility may require deposits from its customers for either initial or restoration services, provided the deposits are reasonable and not discriminatory.

3.2.4.20 Governments should enact policies addressing investment and disposition of interest on deposits by considering legal and contractual requirements and public policy. Governments are encouraged to disclose such policies in applications and official documents related to deposits to ensure a clear mutual understanding of such policies with depositors.

##### Investment of Superior Court Trust Funds

3.2.4.50 Pursuant to RCW [36.48.090](#), whenever the clerk of the superior court has moneys held in trust for any litigant or for any purpose, they should be deposited in a separate bank account designated *Court Trust Fund*. These moneys should not be commingled with any public funds. The clerk is subject to the same investment limitations as the county treasurer (RCW [36.29.020](#)). See [Sweeping Interest and Investment Returns into General Fund](#).

##### Interest Income

3.2.4.60 Unless provided otherwise, interest earned on trust investments should be forwarded to the county treasurer as current expense fund revenue. If however, the trust principal amounts to \$2,000 dollars or more and a litigant in the matter had filed a written request, the interest should be held in trust and paid to the beneficiary upon termination of the trust. The clerk should assess a five percent investment service fee, subject to statute limitations, on interest earned on behalf of beneficiaries.

3.2.4.70 All litigants not represented by an attorney and who have \$2,000 dollars or more being held by a superior court clerk should receive written notice of the provision for receiving interest income on the funds.

##### Accounting Requirements

Clerks making trust fund investments must maintain an investment ledger and reconcile the ledger to bank and investment account statements and the county general ledger on a monthly basis. The investment ledger must:

(1) Be sufficient to indicate the total amount of funds invested at any given time (a control account).



## Special Assessments

### 3.2 Assets

#### 3.2.7 Special Assessments

##### 3.2.7.10 Capital Assessments

The project expenditures should be recorded in a capital projects fund. Revenues should be recognized according to the financing involved.

Capital improvement assessments projects that are an integral part of the government's enterprise activities should be recognized in the enterprise fund.

##### 3.2.7.20 Operating Assessments

The revenues and expenditures should be recorded in either the general (current expense) fund, a special revenue fund, or an enterprise fund. These types of assessments are for operating activities and do not result in the purchase or construction of capital assets (e.g., street cleaning or snow plowing). Both the revenues and expenditures should be recognized on the same basis of accounting as normally used for that fund.

##### 3.2.7.30 Assessments Receivable

A special assessment receivable should be established at the time of the levy, and an equal amount of deferred inflows of resources should be reported in the general, special revenue, or debt service funds.

##### 3.2.7.40 General Long-Term Debt

Special assessment debt for which the government is obligated in some manner, as defined in the [GASB Statement 6, Accounting and Financial Reporting for Special Assessments](#), should be reported with other general long-term liabilities, except for the portion, if any, that is a direct obligation of an enterprise fund or is expected to be repaid from the enterprise fund revenues.

The phrase *obligated in some manner* is defined very broadly by the [GASB Statement 6](#). It would be very rare, if ever, that special assessment debt should not meet these criteria.

No-commitment special assessment debt is a debt in which the benefitting property owners - not a government - will provide the resources needed to repay the debt. So, from the government's viewpoint, resources provided by the no-commitment special assessment debt are essentially similar to resources provided by grantors. Accordingly the issuance of no commitment special assessment debt should not be classified as debt proceeds or other financing sources; instead should be reported as revenue and described as *contributions from property owners*.

##### 3.2.7.50 Debt Service

The long-term debt service transactions associated with a special assessment project should be recorded in a debt service fund. Recognition of bond principal and interest expense should be similar to other long-term debt. However, any portion that is an obligation of an enterprise fund or expected to be repaid from an enterprise fund revenues should be reported in the enterprise fund. Short-term debt service expenditures should be recognized in the fund recording the associated debt.

### 3.2.7.60 Capital Assets

The capital assets constructed by a capital improvement special assessment should be reported together with other capital assets. The exception is when the asset is related to an enterprise fund.

### 3.2.7.70 Budgeting

Capital improvements funded by special assessments should be budgeted on a project basis. Although improvement district statutes vary, they normally require formal adoption of an assessment roll. The LID formation ordinance is a perfectly adequate budget for the life of the LID. The amount of the assessment roll is determined by the estimated costs of construction and debt service, which are accordingly approved by the same action. If construction costs exceed estimates, legislative approval is normally required. That approval should be recorded as a budget modification.

### 3.2.7.80 References

	<u>Authority to Establish and Assess for</u>	<u>RCW Reference</u>
Cities and Towns	LID & ULID	Chapter <a href="#">35.43</a> RCW thru Chapter <a href="#">35.56</a> RCW
Counties/County Roads	CRID	Chapter <a href="#">36.88</a> RCW
Fire Districts	LID & ULID	Chapter <a href="#">52.20</a> RCW, Chapter <a href="#">35.43</a> RCW thru Chapter <a href="#">35.56</a> RCW
Port Districts	LID & ULID	Chapter <a href="#">53.08</a> RCW, Chapter <a href="#">35.43</a> RCW thru Chapter <a href="#">35.56</a> RCW
Library Districts	LID	Chapter <a href="#">27.14</a> RCW, Chapter <a href="#">35.43</a> RCW thru Chapter <a href="#">35.56</a> RCW
Irrigation Districts	LID & ULID	RCW <a href="#">87.03.480</a> thru RCW <a href="#">87.03.527</a>
Irrigation Districts	O&M	RCW <a href="#">87.03.240</a> thru RCW <a href="#">87.03.420</a>
Park and Recreation Districts	LID	RCW <a href="#">36.69.200</a> thru RCW <a href="#">36.69.305</a>
Sewer Districts	ULID	Chapter <a href="#">56.20</a> RCW, Chapter <a href="#">35.43</a> RCW thru Chapter <a href="#">35.56</a> RCW
Water Districts	ULID	Chapter <a href="#">57.16</a> RCW, Chapter <a href="#">35.43</a> RCW thru Chapter <a href="#">35.56</a> RCW



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Counties/Sewerage, Water and Drainage System	LID & ULID	RCW <a href="#">36.94.220</a> thru RCW <a href="#">36.94.400</a>
Flood Control Zone Districts	LID & ULID	RCW <a href="#">86.15.160</a> , RCW <a href="#">86.15.165</a>
Flood Control Districts	O&M	RCW <a href="#">86.09.380</a> thru RCW <a href="#">86.09.517</a>
Diking Districts	O&M	RCW <a href="#">85.05.270</a> , RCW <a href="#">85.05.355</a> , RCW <a href="#">85.18.150</a>
Drainage Districts	O&M	RCW <a href="#">85.06.125</a> , RCW <a href="#">85.38.140</a> thru RCW <a href="#">85.38.170</a>
Diking, Drainage and Sewage Improve. Dist.	O&M	RCW <a href="#">85.08.410</a> , RCW <a href="#">85.08.420</a> , RCW <a href="#">85.08.480</a> , Chapter <a href="#">85.16</a> RCW
Public Utility Districts	ULID	RCW <a href="#">54.16.120</a> thru RCW <a href="#">54.16.170</a>

CRID - County Road Improvement District

LID - Local Improvement District

ULID - Utility Local Improvement District

O&M - Operations & Maintenance, Debt Service, etc.

## Sweeping Interest and Investment Returns into General Fund

### 3.2 Assets

#### 3.2.3 Sweeping Interest and Investment Returns into General Fund

This guidance applies only to cities and counties.

3.2.3.10 Based on the current economic environment in which they operate, local governments are actively looking for ways to generate additional unrestricted revenues, so often there are questions regarding the transfer of interest income associated with certain revenues to the general fund and/or other funds.

3.2.3.20 The answers to these questions may be “Yes: or “No”, based on the statutory language that authorized the imposition of taxes and levies or the distribution of fees and taxes by the state. These answers are also affected by the type of entity receiving the revenue.

#### Counties

3.2.3.30 County legislative authorities have the power to direct the investment of county funds, and when they do so, the interest earned stays with the original fund. If the legislative authority does not provide this direction RCW [36.29.020](#) allows a county treasurer to allocate the interest and other income earned on the investment of a county’s own funds into county general fund.

3.2.3.40 As discussed in the AGO 2010 No. 10, the three statutes listed below are examples of a specific legislative intent which overrides the general authorization granted counties in RCW [36.29.020](#).

- RCW [73.08.080](#) - Veterans’ assistance fund
- RCW [81.100.080](#) - High occupancy vehicle system fund
- RCW [41.16.050](#) - Firefighters’ pension fund

3.2.3.50 Again, the statutes listed above are not meant to provide an exhaustive list of all revenues where the allocation of interest is restricted. It is the county’s responsibility to carefully review the statutory language governing a particular revenue source to determine restrictions related to interest and other investment income.

#### Cities

3.2.3.60 Cities may transfer interest income to their general fund if the transfer is in compliance with RCW [35.39.034](#) (non-code cities) or RCW [35A.40.050](#) (code cities).

# Capital Assets

## Capital Asset Accounting

### 3.3 Capital Assets

#### 3.3.10 Capital Asset Accounting

3.3.10.10 Once the capital asset system is in operation, the government needs to make sure that assets which should be capitalized are properly recorded and that records are brought up to date when assets are disposed of or replaced.

##### 3.3.10.20 Determining Ownership of Capital Assets

While assets may be jointly acquired, constructed or used, an asset can only be asserted to be owned by one government and therefore may only be reported as such on one set of financial statements. Generally, the government that owns the asset and holds the title determines who should report the asset even if used or paid for by someone else. For example, a city pays to construct a park on port property. The port owns the land and as such, should report the asset. However, when a title is not available, it may be difficult to determine who owns the asset. In such cases, the party responsible for managing and maintaining the asset should be considered the owner and report it. In the previous example, even if the city assumed responsibility for maintaining the park, the port would report the asset since they own the land. However, there is a potential for the city to report a leased asset if there is a lease agreement in place for the park.

Whenever there is a question about ownership or the correct classification or reporting of an asset that was acquired, constructed or used jointly, the government should check with the other parties involved to ensure consistency in reporting the asset and clarify any applicable contracts or agreements as needed.

##### 3.3.10.30 Cost to be Recorded

*Original cost* (historical cost) is the amount spent to acquire an asset. This cost is based on the actual price paid, including related taxes, commissions, installation costs and any other costs related to acquiring the asset or preparing the asset for use. Costs should only be capitalized when directly attributable to a specific asset. As such, costs related to studies that determine feasibility or the best location of an asset should not be capitalized. On the other hand, legal, engineering, architectural and other ancillary fees related to acquiring, or putting in service, a specific piece of property could be capitalized.

Land costs typically include: the purchase price; closing costs, such as title to the land, attorney fees, and recording fees; assumptions of any liens, mortgages, or encumbrances on the property; costs incurred in getting the land in condition for its intended use, such as excavation, grading, filling, draining, clearing, removal, relocation or reconstruction of property of others; retaining walls; parking lots; fencing; landscaping; and any additional land improvements. Any proceeds

obtained in the process of getting the land ready for its intended use, such as salvage receipts on the demolition of an old building or the sale of cleared timber, should be treated as a reduction in the price of the land.

The actual price should approximate fair market value. If the information regarding original cost is not available, the government needs to estimate the original cost. This cost principle applies to both governmental and proprietary capital asset acquisitions.

#### 3.3.10.40 Excess Costs

Costs that do not add to the utility of an asset should not be capitalized. For example, expenditure to repair a piece of equipment that was damaged during shipment should be expensed. In addition, training on how to use a newly acquired asset should not be capitalized as it would not meet the criteria of a necessary cost to place the asset into service. Each capital asset purchase should be analyzed carefully to determine which portions of the cost should be capitalized.

Specific guidance on this topic may be provided in industry publications or mandated by certain regulatory agencies. For example, FERC guidance for PUDs, provides that any amounts incurred for plant additions that are in excess of just and reasonable charges should be expensed. Likewise, if excess costs are incurred to replace individual units of property damaged in a storm so as to restore the utility system to operating condition without delay, then only the normal or fair cost is charged to plant, the balance to maintenance.

#### 3.3.10.50 Capitalization of Interest

Effective with [GASB Statement 89, Accounting for Interest Cost Incurred before the End of Construction Period](#) interest may no longer be capitalized as part of the historical cost of a capital asset. These costs should be expensed. This standard is effective for reporting periods beginning after December 15, 2019 and earlier application is encouraged. Until that time, the following guidance is in effect:

Interest cost incurred in connection with the acquisition, construction, or improvement of capital assets are considered part of *the ancillary charges necessary to place the asset into its intended location and condition to use*.

Interest should never be capitalized on capital assets accounted and reported in governmental activities including capital assets in internal service funds that are incorporated into governmental activities in the government-wide financial statements. So, interest capitalization is limited to capital assets reported in the enterprise funds. The [GASB Statement 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements](#) paragraphs 5-22 provides requirements regarding capitalization of interest cost.

#### 3.3.10.60 Donated and Contributed Assets

Assets are sometimes donated to a government. Donations of cash to be used to purchase or construct a specific asset should be reported as revenue (BARS 367, *Contribution and Donations*)

from *Nongovernmental Sources* in governmental funds; BARS 374/379, *Capital Contributions* in proprietary funds).

Contributed capital assets intended to be used in operations should be reported at the acquisition value. Acquisition value is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date, or the amount at which a liability could be liquidated with the counterparty at the acquisition date (further described in [GASB Statement 72, Fair Value Measurement and Application](#)). Contributed capital assets intended to be sold should be reported at fair value.

#### 3.3.10.61 Transferred Assets

Assets are sometimes transferred within a government and between governments. Capital assets transferred between funds or between financial reporting entity components should be transferred at their current carrying value, both the original cost and accumulated depreciation amounts will transfer. For additional information, see [GASB Statement 48, Sales and Pledges of Receivables and Future Revenues and Intra Entity Transfers of Assets and Future Revenues](#) or [GASB Statement 69, Government Combinations and Disposal of Government Operations](#).

Assets transferred between governments that qualify as a transfer of operations (such as with annexations) should be accounted for and valued consistent with guidance in [GASB Statement 69, Government Combinations and Disposals of Government Operations](#). For example, the transfer of assets relating to an annexation should be recorded at the carrying value of the transferor (the government giving up the assets). Annexations are considered a transfer of operations. In addition, such transfers are reported as a special item.

#### 3.3.10.65 Acquisition of Another Entity or its Operations and Government Mergers

Government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. In this case, assets acquired (and liabilities assumed) are required to be measured based on acquisition values.

A government merger includes combinations of legally separate entities without the exchange of significant consideration. In this scenario, the use of carrying values should be used to measure the assets and liabilities.

For reporting requirements, see [GASB Statement 69, Government Combinations and Disposal of Government Operations](#) for further details.

#### 3.3.10.70 Works of Art and Historical Treasures

Works of art, historical treasures, and similar assets are considered to be capital assets and as such they should be capitalized at their historical cost if purchased or acquisition value if donated.

Exhaustible assets (such as exhibits whose useful lives are diminished by display or educational or research applications) should be depreciated over their estimated useful lives. Governments should

not depreciate collections or items considered inexhaustible (i.e., the individual works of art or historical treasures that have extraordinarily long useful lives). Distinctions of exhaustible and inexhaustible items or collections, or their useful lives need to be made by each government.

#### 3.3.10.80 Improvements, Repairs and Maintenance

Costs relating to an existing asset need to be carefully evaluated as they are incurred to determine whether they should be expensed or capitalized. This evaluation will depend on the nature of the cost as well as the government's policy.

Routine repair and maintenance costs should be expensed as they are incurred.

Costs that represent betterments, such as those that increase service capacity or efficiency should be capitalized. For example, an example of an increase in service capacity is a road that is widened to include another lane. An example of an increase in efficiency might be the ability to raise the speed limit of a road due to the addition of entrance or exit ramps. To the extent that a project is partially a betterment, the amount of the betterment should be estimated and capitalized.

Costs that extend useful life should also be capitalized. For example, a road that is fully depreciated undergoes a significant reconstruction. The costs of the reconstruction should be capitalized.

For major maintenance or replacements of components of a pre-existing asset, there are several approaches that might be used. Local governments should determine in advance what approach(s) will be used, address the approach(s) to be used in its policy, and then apply it consistently.

- **Componentization.** This allows for recording key components as separate asset records and depreciating over respective useful lives. See section 3.3.10.150 for more information. For example, if the roof is recorded as its own component, then the old asset record would be removed and the new asset record added.
- **Expense the replacement or major maintenance.** This approach is recommended when using group or composite depreciation as assets are part of a pool and no longer have individual identity.
- **Adjust the existing asset record for the addition and the removal.** Capitalize subsequent replacements or major maintenance (such as a new roof) and adjust the existing asset record (and accumulated depreciation) for the removal or disposal (such as of the old roof). A gain or loss on the disposal should be recognized, unless the composite/group depreciation method is used. The local government's policy should address how the original costs will be determined when the existing asset record is updated for the replacement.

If the modified approach is used, different guidance applies to improvements, see section 3.3.10.145.

#### 3.3.10.90 Date Placed in Service

Construction in progress reflects the status of construction activities of buildings, other structures, infrastructure, etc. Construction in progress is a non-depreciable capital asset. Constructed assets should be re-classified from construction in progress and begin to be depreciated when they are

substantially completed/placed in service. Due care should be taken to ensure depreciation begins on assets when it is appropriate.

There is no specific definition of *substantially completed* and the local governments should use professional judgement to determine the timing of the transition from construction in progress to depreciable capital asset. The constructed asset would be considered substantially completed when it can at least partially perform its intended function (e.g., an empty or partially occupied building for which the government obtained the occupancy permit; the structure is completed except for the landscape; a multilane road with cars using some of the lanes; the asset is being used even if not all “punch list” items are completed or the dispute with a contractor is resolved; equipment [e.g., a fire truck, etc.] is delivered and being used despite some unfinished modifications; etc.).

#### 3.3.10.100 Depreciation

Most capital assets, including infrastructure should be depreciated. There are some exceptions for assets such as land and depreciating art and historical treasures, if they are inexhaustible. In addition, an asset that has been surplused or that is held for possible future use is an investment and should not be depreciated. For quarries, timberlands, and mineral rights, depletion expenses must be recorded. Since properly maintained infrastructure assets have the potential of indefinite useful lives, there is an option of not applying depreciation for infrastructure assets that meet certain criteria as defined in [GASB Statement 34](#); this is referred to as the modified approach.

The objective of depreciation is to spread the costs of capital assets incurred in one period equitably over multiple periods for which the capital asset will benefit. Several items should be considered when depreciating assets, as discussed below.

#### 3.3.10.105 Unit of Depreciation

Governments may depreciate by class of assets, by a network of assets (such as a road network), a subsystem of a network (such as residential roads, arterial roads, or highway), or by individual assets. The government’s policy should prescribe how assets will be depreciated. Also, regardless of how assets are depreciated, sufficient information and support should be retained to identify them and support their existence.

#### 3.3.10.110 Salvage Value

Salvage value is the estimated fair value of a capital asset, infrastructure or otherwise, remaining at the conclusion of its estimated useful life - after considering the cost of demolition or removal. In most cases, it is probable that many infrastructure assets will have no salvage value, given the cost of demolition or removal. For other asset types, salvage value is typically expected to be trivial and if so, can be ignored in establishing the amount to depreciate. However, if scrap or sale proceeds are expected upon disposal and these proceeds exceed the cost of demolition or removal, then this value can and should be factored into the depreciation calculation.

#### 3.3.10.120 Estimated Useful Life

Depreciation must be based on a reasonable estimate of expected useful life or service life; that is, the number of years, miles, service hours, etc., that the government expects to use that asset in operations. Service life means the time between the date the asset is includible as an asset in service to the date of its retirement.

Ideally, governments should base useful life estimates on its actual experience and plans. For example, internal sources of information about useful life might include property replacement policies or practices, property disposal information, and budgeting information regarding the planned timing for replacement of assets.

However, if this information is not available, the government can look to industry guidelines for a starting estimate and then revise the estimate as additional information becomes known. The use of another's estimate should also be adjusted for differences in application, quality, environment, and maintenance practices that may vary amongst the entities.

The useful estimate should consider:

- Present condition;
- Expected future use, including anticipated changes in future usage rates or patterns; as well as how long it is expected to meet service and technology demands;
- The government's own experience;
- Construction type or quality;
- Maintenance policy;
- The government's historical experience with assets of this type as well as any industry, manufacturer or regulatory guidelines on the life-expectancy of the asset;
- Any legal, regulatory, or contractual provisions that might affect the estimate for an intangible asset.

Governments should maintain support for their useful life estimates as long as they are in use in order to demonstrate how the estimate was determined. Some examples of support might include engineering or depreciation studies.

Depreciation is intended to allocate the cost of a capital asset over its entire useful life to the periods that are benefitted. As useful lives are an estimate, periodically, local governments should consider information available about the existing estimates and make adjustments as needed. For example, governments should evaluate the service life of assets that are replaced or disposed to assess whether useful life estimates for the related class should be updated. Adjustments should be made prospectively to useful life and depreciation expense to ensure costs are allocated up to the end of its service life.

Estimates involving dissimilar assets that are depreciated together (such as using the composite depreciation method) should be evaluated more frequently than other useful life estimates due to the risk that the makeup of the group may change over time.

#### 3.3.10.130 Fully-Depreciated Assets



If a government has fully depreciated assets, they should continue to report them until they are disposed of, sold, or replaced. However, fully depreciated assets that are still in use might be a red flag that useful lives are not reasonably accurate. The process of periodically evaluating and adjusting useful lives should prevent a material amount of fully depreciated assets from being reported but still in use. In practice, there are two legitimate reasons there may be fully depreciated assets that are still in use:

(1) The use of average estimated useful lives for entire classes of assets means that at least a few fully depreciated capital assets typically will be reported (i.e., those whose actual lives exceed the group estimate). This is acceptable, but only if such balances do not become material, in which case the estimated useful life for the group would likely need to be changed.

(2) For assets that have multiple components with different useful lives (such as a building) but are recorded and depreciated as one asset record, there might be a composite rate used that might reflect the service life of different components (such as a use of a weighted average). This practice results in accelerated depreciation and the overall building asset may be fully depreciated but still in use.

#### 3.3.10.140 Depreciation Method

There are two primary depreciation methods used by local governments in practice: straight-line or group life.

##### ***Straight-line depreciation***

Straight-line depreciation is the most common method used. With the straight-line method, the cost of an individual capital asset (less any salvage value) is allocated equally over its estimated useful life.

##### ***Group or composite depreciation***

Group or composite depreciation should only be used in appropriate circumstances, and should be supported by rationale documented in the capital asset policy.

In group depreciation, similar assets are depreciated as one record, such as a fleet of police cars or lane miles of pavement of a road. It is applied when it does not make practical sense to record and depreciate assets on an individual basis. Composite depreciation is used for dissimilar assets such as for depreciating all the roads and bridges of a state.

This depreciation method cannot be applied across different classes of assets (such as furniture and vehicles) and must not interfere with depreciation being charged to the appropriate functional expense in governmental activities (such as one cannot depreciate public safety assets and culture/recreation assets together in one group).

The accounting methodology is the same for both methods. The group of assets should be treated as a single asset; a depreciation rate determined based on the average life of the group (can be a

weighted average, simple average, or based on an assessment). The depreciation rate is applied to the asset costs each year. Disposals are recognized by adjusting the asset record and accumulated depreciation (with no gain or loss typically recognized except in unusual situations). Governments using this method should be able to identify the assets using other source records such as operational records. When some items within the group are retired, the cost of the items is removed from both the asset and the accumulated depreciation account and no gain or loss is recognized. Depreciation continues to be charged only for the remaining assets at the original rate. The gain or loss is deferred until the entire asset group is disposed of, at which point it would be recognized.

#### 3.3.10.142 Allocation of Depreciation in the First Year

When depreciation charges are based on time periods, charges should be made for each month that an asset is in service. Exceptions such as the half-year convention or excluding depreciation in the first year of service are acceptable, unless this practice results in material distortions in operating income. This might occur when capital asset additions to a fund in any one year are very large. When such large additions are done, depreciation must be charged for no less than each whole month the additions are in service, because it is likely that material distortions in operating income would result from applying more approximate methods.

#### 3.3.10.145 Modified Approach

The modified approach is an alternative to depreciating certain infrastructure. Governments make a commitment to maintain the infrastructure at a certain level and therefore, do not depreciate the assets. All maintenance and preservation costs are expensed, regardless of whether they extend useful life. The only costs capitalized are those related to betterments or entirely new additions that did not previously exist. Replacement of a pre-existing asset, such as a bridge, would be expensed as a preservation cost unless there was a portion of the project that was a betterment – such as the new bridge added another lane. Those using the modified approach should ensure they meet all applicable requirements for using this method.

#### 3.3.10.150 Componentization of Assets

Componentization involves identifying and separately recording asset components that have different useful lives and depreciating them over their respective useful lives; rather than recording a composite asset as one asset record. For example, a building is a composite asset because it consists of many components such as a foundation, roof, heating and cooling system, and electrical system that might have different useful lives. A road could also be considered a composite asset due to the surface layer and the base/sub-base having different useful lives.

Componentization is a preferred method because it more accurately allocates depreciation over the periods benefitted than use of a composite rate. The decision to componentize assets of different types should be addressed in the government's policy and be consistently applied. It is preferable to begin componentization at the time an asset is constructed or purchased. The costs of the composite asset should be reasonably allocated to the various components.

### 3.3.10.160 Depreciation on Donated Assets

Depreciation of assets acquired from contributions is calculated in the same manner as for other assets and is reported in the same way on the operating statement.

### 3.3.10.170 Capital Asset Impairment

[\*GASB Statement 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries\*](#) requires the immediate recognition of decreases in the productive capacity of capital assets that are expected to remain in service, even if there is no change in the estimated useful life of the asset. It does not apply to assets reported using the modified approach.

The Statement identifies five indicators of possible impairment:

1. **Evidence of physical damage** - such as an office building damaged in a storm;
2. **Changes in legal or environmental factors** - such as an underground storage tank that is no longer usable due to changes in environmental standards;
3. **Technological changes or obsolescence** - such as medical equipment that still can be used, but for which the demand is expected to significantly decrease with the advent of more attractive treatment options;
4. **Changes in manner or duration of use** - such as a school building being used as a warehouse;
5. **Construction stoppage** - legal or practical reasons may cause to abandon a construction project, such as a road construction that threatens the habitat of endangered species).

The presence of one of these indicators does not automatically prove that the impairment has occurred. For example, the alternative use of capital asset could have the same value as its original use. The presence of an indicator, however, does put management on notice that it needs to consider the possibility that an impairment may have occurred.

Only permanent impairments of capital assets should be recognized in the financial statements. If a government recognizes impairment because it cannot determine that the situation is only temporary, it may not recognize a subsequent recovery in value should the impairment ultimately prove to be temporary.

The following flowchart is designed to help the governments determine if there is a need to calculate and disclose the assets impairment.

### 3.3.10.180 Calculating Capital Asset Impairment

For permanently impaired assets, the appropriate accounting and financial reporting depends on whether the asset is expected to remain in service. For capital assets expected to remain in service, the impairment loss must be recognized according to methods prescribed in the statement.

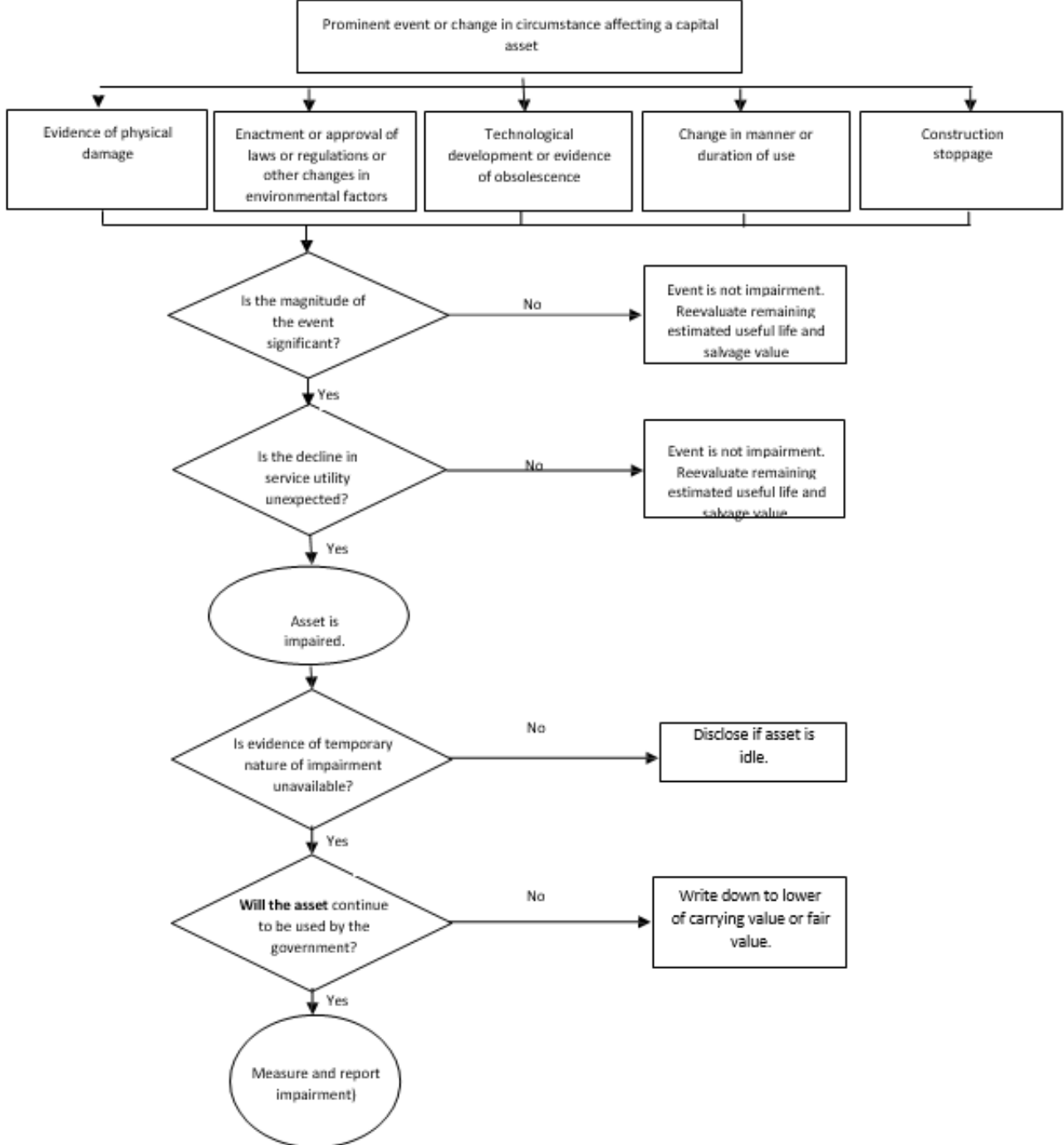
3.3.10.190 Reporting

In some cases, capital asset impairment will qualify as an extraordinary item. Capital asset impairments subject to management control (e.g., change in manner or duration of use) may qualify as special items. Otherwise, capital assets impairment should be treated as an element of net program cost in appropriate functional category.

The notes to financial statements should disclose the amount and classification of impairment losses not visible on the face of financial statements. Also, any capital assets that are idle either permanently or temporarily as a result of impairments, should be disclosed.

All insurance recoveries, including those not associated with the impairment of capital assets, should be reported net of the related loss as soon as the recovery is either realized or realizable.

**ASSET IMPAIRMENT DECISION PROCESS**



## Capital Asset Management System Requirements

### 3.3 Capital Assets

#### 3.3.9 Capital Asset Management System Requirements

3.3.9.10 Capital assets are tangible or intangible assets having initial useful lives extending beyond a reporting period, including:

- Land and improvements to land, including right of ways and easements
- Buildings and building improvements
- Parking lots
- Vehicles
- Machinery and equipment
- Works of art and historical treasures
- Infrastructure assets, such as roads, bridges, sidewalks, water lines, sewers, drainage systems
- Intangible assets, such as easements, water rights, timber rights, and computer software

A capital asset management system is the set of policies and procedures used to control government's capital assets. To the extent that capital assets are a significant and important component of government operations, the system should be designed to satisfy operational, compliance, safeguarding and financial reporting objectives.

#### 3.3.9.20 CAPITAL ASSET MANAGEMENT SYSTEM OBJECTIVES

The duty to make certain that public property is adequately protected and that its use is properly managed is one of the fundamental responsibilities of public officials. For some types of local governments, statutes contain specific requirements for demonstrating stewardship of public property. For example, county commissioners are required to inventory all county capitalized assets (RCW [36.32.210](#)). But regardless of whether statutes for a particular government identify any specific duties, public officials have several broad responsibilities with respect to capital assets:

- **Custody** - A capital asset system should account for assets, which means it is able to answer:
  - What property and equipment does this government own?
  - Where is it?
  - What condition is it in?
  - Is it protected from loss and unauthorized use?
- **Insurance** - A capital asset accounting system should provide adequate records to identify and prove any losses. Location, inventory, and maintenance records will confirm that a lost or damaged asset has been in use recently, which will support the validity and timeliness of a theft or damage report. In addition, when a government has elected to self-insure to some degree, officials should be able to evaluate the nature and extent of risk assumed, which cannot be done without knowing what assets are at risk.
- **Maintenance** - As a steward of public property, officials have the obligation not only to safeguard assets from loss but also to ensure they are not neglected, wasted or misused. The

local government should not find itself surprised by building or equipment repair or maintenance requirements or by predictable problems with down time and availability of spare parts. A capital asset system should allow for identification of assets requiring maintenance, planning of scheduled maintenance necessary to preserve assets, and prompt identification of needed repairs. Moreover, capital asset accounting should provide a framework for capturing costs of maintenance, improvements, impairments and changes in estimated service life or capacity. The system should also provide adequate historical data to allow officials to make informed decisions about the costs of different levels of maintenance or deferred maintenance.

- **Compliance** - The capital asset system should allow the government to demonstrate compliance for any assets subject to purpose or use restrictions due to law, contract or grant agreement. For example, assets purchased with federal grant funds must demonstrate compliance with federal property management requirements. 2 CFR §§200.310-316 gives specific requirements related to real property, equipment, supplies and intangible property purchased with federal grant funds.
- **Planning (Capital Budgeting and Utilization)** - This includes planning for future asset needs, both short and long range. The capital asset system should be able to answer:
  - How well is the government using the facilities and equipment it already has?
  - What does the government already own that could be transferred to another facility instead of purchasing additional equipment?
  - Which items must be replaced, when and at what cost?
  - When will additional facilities or equipment be needed, where and at what cost?
  - Which facilities or equipment will not be needed, and what cost reductions in maintenance, insurance, and security will result from liquidating them?

The extent and nature of capital planning will vary depending on the size of government, whether demand for its services is stable or changing, whether its functions are capital intensive (like public works and utilities) or labor intensive (like education and welfare services), and how capital outlays are funded (through rates, general taxes, special bond issues, or grants).

### 3.3.9.30 CAPITAL ASSET POLICY

Governments should develop a capital asset policy that describes the following key elements at a minimum:

- **Capitalization Thresholds.** A government may establish a single capitalization threshold for all capital assets or different capitalization thresholds for different classes of assets. For example, a government may want to set a threshold of \$25,000 for infrastructure and \$5,000 for all other assets. [GFOA](#) recommends not setting a threshold of less than \$5,000 for any individual item. Local governments that are recipients of federal grants should ensure capital asset thresholds will allow the government to meet federal requirements in the 2 CFR §200.313 related to tracking assets purchased with federal funds.
- **Asset Replacement.** Policies should provide sufficient direction on when assets should be replaced. Replacement may be based on a set schedule, based on specified conditions, or delegated to specified staff positions or groups to determine or recommend on an asset-by-asset basis. Replacement policies often differ by asset type and should be established to align

with and support the governments capital budgeting and planning process.

- Estimated Useful Lives. It is important that governments establish reasonable estimates of the useful lives of capital assets for depreciation purposes. When setting useful lives, governments should consider its own past experiences with similar assets in addition to industry norms if the government needs a starting estimate (has no experience of its own). Industry lives may need to be adjusted due to differences in the quality, location/environment, application (intended use of the asset, volume of usage), and maintenance practices.
- Capitalizing Components of Larger Assets (Componentization). Some assets are made of multiple components with different useful lives. For example, a building is comprised not only of the structure, but may also include furnishings, a roof and HVAC system that each have an estimated useful life less than the structure. Governments may elect to capitalize all components as a single asset, or to “componentize” the building into several related assets.

The decision to componentize or not should be based on the government’s approach to capital budgeting and planning. This policy will affect whether future work should be capitalized or expensed as maintenance, as well as judgments related to impairments, improvements and the asset’s useful life. The government’s approach should be described in policy and be clearly evident in individual capital asset records to ensure consistent application.

- Depreciation Methods. A government should describe the depreciation method to be used. The selected method of depreciation should remain consistent from year to year. Any change in the depreciation method adopted would result in a change in accounting principle and should be disclosed within the notes to the financial statements. See [Capital Asset Accounting](#) for detailed guidelines.
- Inventory Requirements. Policies should require inventories at reasonable intervals. Inventory policies should conform to any statutory or regulatory requirements, such as the requirement for counties to inventory all capital assets per RCW [36.32.210](#) or the requirement for all assets over \$5,000 per unit purchased with federal grant funds to be inventoried at least once every two years per the 2 CFR §200.313. At a minimum, policy should define maximum inventory periods, assign overall responsibility for conducting the inventory, and specify any specific reporting on results expected by the governing body. See [Controls over Capital Assets](#) for detailed guidelines on inventory work plans.

RCW 36.32.210 stipulates that each board of county commissioners must file with the auditor of the county a full and complete inventory of all capitalized assets.

- Other accounting procedures, as needed, such as treatment of capital leases or procedures for accumulating costs for self-constructed assets.
- Disposition Procedures. To the extent procedures are not defined by statute (such as Chapter [39.33](#) RCW for intergovernmental disposition of property, or property sales for ports in Chapter [53.08](#) RCW, etc.), policies should define authority and authorized procedures for determining assets require replacement or are otherwise surplus, and their subsequent disposition.

Once a policy is adopted, it should be periodically reviewed and updated to ensure it meets the



needs of the local government.

#### 3.3.9.40 CAPITAL ASSET RECORDS

Capital asset records should enable the government to meet statutory requirements, to produce adequate reports, and to safeguard assets properly. The basis of a capital asset accounting system is the individual capital asset record. The following minimum information is required for each capital asset:

- Category of asset,
- General ledger fund and asset account the asset is recorded in,
- Individual or department assigned custody of the asset,
- Acquisition information, including references to source documents and acquisition dates,
- Source of payment, such as grant, fund, etc.,
- Historical cost,
- Name and description of asset that is sufficient to specifically define and identify the asset, including any identifying numbers or legal descriptions where applicable,
- Estimated useful life,
- Disposition information, including the date and method (such as destruction, scrap, sale, etc.) and any costs or proceeds.

Note: These components are expected to be included in the inventory for counties prepared in accordance with RCW [36.32.210](#).

Other information that is not mandatory, but desirable, includes:

- Brief directions on where/how to locate the asset,
- Special insurance, maintenance, and repair instructions,
- Physical inspection dates or condition of asset when it was inspected.

Specific information captured may vary by type of asset. For example, the government may find it necessary to capture certain information about roads or bridges that is different than information needed for equipment. Moreover, information necessary to identify the asset will be different based on the asset type.

In addition to information necessary to describe the current state of the asset, the system should also allow for capture of sufficient information on changes to records that may occur over the life of the asset, such as changes in custody, estimated useful life, improvements, impairments, etc., since it may be difficult or impossible to reconstruct these changes at a later date.

A sample [form](#) has been designed to assist governments in collecting important information about each asset.

#### 3.3.9.50 SYSTEM COORDINATION

Since capital asset information is used for a variety of objectives, a challenge facing local

governments is coordinating record-keeping that may be maintained or used by different departments or personnel. When multiple departments within a local government have their own system or listing of assets, these lists should be regularly compared and reconciled to ensure information is shared between the departments as the sources and intended use of the information may differ. When multiple departments are using the same system, common definitions should be used. In any case, coordination between departments and users is essential for a comprehensive and effective capital asset management system.

For example, public works departments generally have information about the location, condition, and replacement schedule of infrastructure assets, such as roads, bridges, water, and wastewater systems. Since the department is responsible for managing the maintenance and repair, they may have insight into any changes related to useful lives that may be needed. Generally, this is also the department most involved in construction of new assets.

In addition, outside agencies, such as the Department of Ecology and the County Road Administration Board, require information about various infrastructure assets, so the public works department maintains a listing of the associated assets, and condition, for regulatory reporting purposes. This information retained by public works could be useful for financial reporting purposes. Therefore, it is recommended that finance and public works work together closely to ensure all information about capital assets is accurate and compiled within the capital asset management system.

## Controls over Capital Assets

### 3.3 Capital Assets

#### 3.3.11 Controls over Capital Assets

3.3.11.10 Controls over capital assets should be sufficient to provide reasonable assurance that capital asset system objectives are demonstrated. Controls over capital assets should include:

- Transaction controls over capital asset records, including asset additions, deletions and changes in custody,
- Reconciliations between capital asset records,
- Periodic inventories,
- Reviews of impairment
- Periodic re-evaluation of useful lives

See [Internal Controls](#) for general guidance on internal controls. Specific guidance on controls is provided below. Also, the SAO Resource Database provides an additional tool [Checklist for Capital Assets](#) designed to help local governments develop policies and procedures related to capital assets.

#### 3.3.11.20 TRANSACTION CONTROLS

Each time the local government acquires or disposes of a capital asset, transfers an asset between locations, charges depreciation expense or makes an adjustment, an entry must be made on to the capital asset records. Internal controls must be established to ensure that these transactions are properly and promptly recorded; specifically:

1. Staff responsible for processing disbursements or managing capital projects should be familiar with and trained to recognize and properly code capital outlays and to understand the government's capitalization policy.
2. For additions, procedures must be implemented to assure that the accounting department receives information, such as a copy of the receiving report or the invoice. They should also receive a copy of all lease agreements, progress billings on construction contracts, and worksheets that itemize the costs of assets constructed in-house.
3. For deletions, procedures must be implemented to assure that the accounting department automatically receives information, such as all resolutions/ordinances that declare property surplus, all property insurance claims, and itemized invoices for acquisitions that involve trade-ins. For infrastructure assets, deletions may occur by abandoning or replacing an asset. Procedures should be implemented to ensure these instances are reported to the accounting department as well. Oversights are difficult to avoid entirely, but they will be detected and

corrected when physical inventories are taken.

4. For transfers of assets between locations, funds, or individuals, procedures should be established to communicate these transfers, with both transferor and transferee notified of the custody change.

### 3.3.11.30 RECONCILIATION CONTROLS

To the extent the government maintains separate capital asset lists for different purposes, these lists should be regularly compared and reconciled. In addition, related accounting records and external reporting should also be regularly compared and reconciled, as applicable. Common reconciliations include:

- a. Reconcile capital asset subsidiary records to general ledger asset accounts;
- b. Reconcile accounting records and operational records maintained for certain infrastructure or other assets (such as vehicle fleet maintenance records or computer equipment records);
- c. Reconcile accounting records for land to county land records or for certain infrastructure assets to reports provided to oversight agencies;
- d. Reconcile accounting records and asset listing for insurance purposes;
- e. Reconcile proceeds from insurance claims and sales or auction lists, claims reports, etc., to report listing capital asset disposals;
- f. Reconcile capital outlay expenditures (BARS 594) to total additions of capital assets;
- g. Reconcile significant capital projects or capital grants shown with increases to the capital asset accounts;
- h. Reconcile capital assets transferred to other locations, custody or funds with capital assets transferred from other locations, custody or funds;
- i. Reconcile physical inventory to capital asset records (see *Physical Inventory* guidelines below).

Any discrepancies identified should be followed up and resolved on timely.

### 3.3.11.40 PHYSICAL INVENTORY

A periodic physical inventory of the capital assets is necessary to verify that the assets still exist, confirm the location and other information of assets and provides updates on the condition of the assets. This information demonstrates that the local government is exercising its custodial responsibility for the asset and is beneficial when establishing an insurance claim because it substantiates both the existence and the condition of the asset near the time of loss or damage.

All governments should have a method to perform a physical inventory to verify the existence and condition of capital assets. The complexity of the work plan will depend on the government's size, the sophistication of the capital asset accounting system and the significance and types of the government's assets. Whatever approach is used; the government should develop a documented work plan with the following elements at a minimum:

**1. Assignments.** Overall responsibility for the work plan should be assigned to one or more staff. In turn, responsibility for work plan procedures should be assigned. Assignments should consider:

a. Ability. Staff assigned to perform inventory procedures should be sufficiently trained, knowledgeable and/or experienced enough to be able to identify and locate the asset and perform procedures to assess it. For example: identifying possible impairments may require special training in accounting criteria; reviewing infrastructure asset records may require operational knowledge of how assets are used and system changes during the year; and assessing the condition of a building and its useful life may require special expertise.

b. Segregation of duties, when appropriate. For assets with an identified risk of misappropriation, misuse or loss, inventory procedures should be assigned to someone other than the person with custody over the asset. However, for asset types such as infrastructure or land, it is often more effective to have those with custody over those assets perform procedures, as they are often due to the need for expertise.

c. Supervision. Supervision may be used to supplement the ability of staff assigned or provide for segregation of duties. For example, accounting personnel may supervise department employees in performing the inventory to ensure sufficient consideration of accounting criteria and records in combination with the department's knowledge and expertise on the assets, or vice versa. The work plan may call for direct supervision, spot checking, or just being present and available during the inventory procedures. Further, the need for supervision may vary by location and asset type. An appropriate level of supervision provides a general control if employees are aware their work will be checked.

**2. Timing.** Inventory procedures should be scheduled to minimize administrative burden and best achieve objectives, commensurate with the identified risks. Work plans may schedule a single inventory of all assets, or establish different schedules for inventories for different locations or asset types. For example, physical inventories of certain asset types may be scheduled to be concurrent with operational work, such as condition assessments for roads and bridges, or regular maintenance on equipment and vehicles. Likewise, such inventories may be continuous, monthly, annually, on a multi-year basis or performed in sections over a multi-year cycle. Other asset types may need to be evaluated at year end as part of the financial reporting process, like construction in progress.

**3. Instructions.** Sufficient instructions and forms should be provided to ensure procedures can be properly carried out, documented, and results communicated for resolution.

Procedures and documentation should include identification of:

- Assets that are missing,
- Assets with evidence of misuse,
- Assets that exist but are not included on the inventory list,

- Assets that are not properly marked, tagged or secured,
- Changes in location or custody,
- Incorrect descriptions or other information about the asset,
- Need for repairs or maintenance,
- Damage, obsolescence or other potential impairments,
- Changes in the estimated useful life or scrap value.

**4. Resolution of Variances.** Once the physical inventories are complete, any variances or adjustments to records should be evaluated and resolved including:

- Updating accounting records,
- Investigation of potentially missing, misused, previously unidentified or unsecured assets,
- Re-evaluation of capital asset groupings, componentization or other capital asset policies,
- Updating capital budgets or plans.

#### 3.3.11.50 **SMALL and ATTRACTIVE ASSETS**

These are assets that are below the government's capitalization threshold for financial statement reporting purposes, but may be susceptible to theft or misuse. Each government should perform an assessment to identify those assets that do not meet the definition of a capital asset, but are particularly at risk or that otherwise need to be tracked for operational purposes. For example:

- Assets that are easily misappropriated or misused, such as laptops or high-value tools;
- Assets that may expose the government to liability if lost, such as firearms or computers with confidential or sensitive data;
- Assets that require tracking for assignment, cost control or re-order purposes.
- Assets that are easily replaced through the procurement process without arising suspicion

Governments should implement specific measures to track and control small and attractive assets to minimize identified risks, as appropriate for the nature of the assets, value of the assets and risks. Since small and attractive assets need only be tracked for operational objectives, controls may not need to be as extensive as those for capital assets. Controls may range from basic measures such as policies, tagging, assigned custody, restricted access or other physical controls - to limited systems such as check-out systems or reserve inventories (where only items not in use are tracked) - to comprehensive tracking and inventory controls resembling those for capital assets as discussed above. Governments should also consider the cost/benefit of tracking certain types of assets and the resources it has available when establishing control measures, as compared to the risks involved. Also, the SAO Resource Database provides an additional tool [Best Practices for Small and Attractive Assets](#) designed to help local governments develop policies and procedures related to capital assets.

# Liabilities

## Arbitrage Rebates

### 3.4 Liabilities

#### 3.4.6 Arbitrage Rebates

##### Overview

3.4.6.10 Any local government may engage in arbitrage by borrowing funds at one interest rate and investing those same funds at a higher rate. The primary reason for arbitrage is that the rates of interest paid on tax exempt debt normally are lower than those paid on taxable securities and it is possible for local governments to profit from this disparity in interest by temporarily reinvesting the proceeds of lower interest tax exempt borrowings in higher yielding taxable securities. The proceeds from those transactions are called *arbitrage earnings*.

3.4.6.20 When governments reinvest tax-exempt proceeds at a higher, taxable yield, the *excess earnings* must be remitted to the federal government as arbitrage rebate. There are some important exceptions to this general rule. These special situations are known as *safe harbors* (e.g., small issuer safe harbor, six-month expenditure safe harbor, eighteen-month expenditure safe harbor, twenty-four month expenditure safe harbor).

3.4.6.30 If a government fails to qualify for one of the safe harbors, it must calculate and rebate arbitrage earnings to the federal government. The tax code requires that arbitrage be calculated every five years and upon maturity.

##### Financial accounting and reporting for arbitrage

3.4.6.40 As noted earlier, the federal government only requires that arbitrage be calculated and reported every five years and at maturity. Rebatable arbitrage should not be treated as a reduction in investment revenues in governmental funds; it should instead be treated in the same way as any other claim or judgment. That is, there should be no recognition in the governmental fund's balance sheet or operating statement until rebatable amounts are actually due and payable to the federal government. Of course, a liability and expense must be recognized in the full accrual-based government-wide financial statements as soon as arbitrage is incurred. **[1]**

3.4.6.50 In calculating the amount of the liability, it should be remembered that *excess earnings* of one year may be offset totally or in part by lesser earnings in a subsequent year. Therefore, the liability recognized for a year should be only that portion of the estimated future payment that is attributable to earnings of the current period.

3.4.6.60 In practice, two different acceptable approaches are taken to accounting and reporting rebatable arbitrage in the financial statements.

### 3.4.6.70 *Revenue reduction approach*

This approach treats the rebatable arbitrage as a reduction of revenue rather than as a separate expenditure or expense.

Assume, for example, that \$5,000 in interest has been earned on reinvested proceeds reported in a capital projects fund, and that \$1,000 of that amount needs to be remitted to the federal government.

The journal entries would be as follow:

#### Year 1

##### Construction Fund

111.10	Cash		\$5,000	
	3611000	Arbitrage Interest		\$5,000

(To record the receipt of interest from arbitrage transaction.)

288.00	Assigned Fund Balance		\$1,000	
	282.00	Restricted Fund Balance		\$1,000

(To reserve fund balance.)

This entry would be reversed at the beginning of the subsequent year.

#### Year 5

##### Construction Fund

282.00	Restricted Fund Balance		\$1,000	
	288.00	Assigned Fund Balance		\$1,000

(To reclassify fund balance.)

231.20	Short-Term Arbitrage Rebate		\$1,000	
	111.10	Cash		\$1,000

(To record the payment of the arbitrage rebate.)

### 3.4.6.80 *Tax approach*

In the second approach the rebatable arbitrage is treated essentially as a tax. This approach argues that the earning of revenue and the incurrence of a tax liability are really two separate transactions.



Accordingly, the rebatable arbitrage is treated separately from investment income.

Rebatable arbitrage is reported as a long-term liability on the government-wide statement of net position until due and payable to the federal government. When payable, the liability and expenditure would be reported in the appropriate governmental fund.

### Year 5

#### Construction Fund

592PP50	Expenditures – Arbitrage Rebate Tax	\$1,000	
	263.70      Arbitrage Rebate Tax Payable		\$1,000

(To report liability for rebatable arbitrage arising from the investment of debt proceeds.)

263.70	Arbitrage Rebate Tax Payable	\$1,000	
	111.10      Cash		\$1,000

(To record the payment of arbitrage rebate.)

#### Special arbitrage implications for proprietary funds

3.4.6.100 The method of accounting and financial reporting selected for arbitrage (i.e., revenue reduction approach or tax approach) can have an effect on the amount of interest capitalized in proprietary funds that follow the provisions of the [GASB Statement 62](#). Specifically,

- If interest revenue reduces the amount of interest to be capitalized under [GASB Statement 62](#),
- And the revenue reduction approach reduces the amount of interest revenue, then
- The revenue reduction method would increase the capitalized value of the asset (i.e., by reducing what otherwise would have been a reduction in cost).

3.4.6.110 Viewed another way, the practical effect of selecting the revenue reduction approach in a proprietary fund using the [GASB Statement 62](#) is to *capitalize* arbitrage. In other words, under the tax approach, rebatable arbitrage is reported as an expense when it is incurred, whereas under the revenue reduction approach it is effectively included in the cost of the asset and only gradually reported in the operating statement as depreciation expense over the asset's useful life.

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**[1]** The rebatable arbitrage is subject to the accounting and reporting rules governing claims and judgments. See the [GASB Statement 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements](#).

## Bonds and Revenue Warrants

### 3.4 Liabilities

#### 3.4.3 Bonds and Revenue Warrants

3.4.3.10 One year after the last legal payment date on matured bonds, the treasurer may send a written request to the fiscal agent to return the moneys not used to redeem such matured bonds. A bond call accelerates the maturity and the treasurer has the right to request that moneys be returned after one year. This recovery provision does not apply to matured coupons which remain unredeemed for over one year, unless the bonds to which they are related have also matured. Unredeemed bonds and coupons that remain unclaimed by the owner for more than two years after becoming payable are considered abandoned (RCW [63.29.130](#)). The treasurer is required to file a report under RCW [63.29.170](#) and pay or deliver all eligible abandoned property, including the unredeemed bonds and coupons referenced above, to the Department of Revenue.

3.4.3.20 The following regulations and procedures are prescribed with respect to the return of the above mentioned moneys.

1. Amounts returned from fiscal agencies at the request of local treasurers should be accounted for in the debt service fund. Concurrent entries should be recorded in the fiscal agency account to reflect the return of the moneys to the debt service fund. If the bonds or coupons are subsequently presented for payment, they should be paid from the moneys so held.
2. The amounts returned from fiscal agencies should not be used to meet current debt service requirements. However, interest earnings on any investments of amounts returned from fiscal agencies will be available to reduce currently required additions to the debt service funds according to the following procedures:
  - a. In the case of general obligation bonds, such interest earnings should be retained in the debt service funds, and currently required additions to such funds should be reduced accordingly.
  - b. In the case of revenue bonds, such interest earnings may be retained, thereby reducing currently required additions to such funds from operating revenues, or such interest earnings may be placed into the current or operating fund.

3.4.3.30 The state or local treasurer should remain obligated for the final redemption of the unredeemed bonds and coupons pursuant to RCW [43.80.160](#).

## Financial Guarantees

### 3.4 Liabilities

#### 3.4.12 Financial Guarantees

3.4.12.10 A non-exchange financial guarantee is a guarantee of an obligation of a legally separate entity or individual, including a blended or discretely presented component unit, which requires the guarantor to indemnify a third-party obligation holder under specified conditions.

*Example: A city (the guarantor) guarantees to pay the debt of a public facilities district in the event the district is unable to make payment.*

3.4.12.20 Merely extending a guarantee does not create a financial statement liability for the guarantor. However, when it becomes *more likely than not* (a likelihood of more than 50 percent) that the guarantor will be required to make payment, a liability should be recorded.

3.4.12.30 When is it *more likely than not*? This is an assessment based on professional judgment. The government extending the guarantee should consider qualitative factors such as:

- The government that issued the debt has entered into bankruptcy or financial reorganization.
- The government that issued the debt is in violation of related debt covenants such as failure to meet rate covenants, failure to meet coverage ratios, or default or delinquency in interest or principal payments.
- The government that issued the debt has indicators of financial difficulty, such as failure to make payments on a timely basis, drawing on a reserve fund to make debt service payments, initiation of a process to intercept receipts to make debt service payments, debt holder concessions, significant investment losses, loss of a major revenue source, significant increase in noncapital disbursements in relation to operations or current revenues, or commencement of financial supervision by another government, etc.

3.4.12.40 Note: a pledge of future revenues is not considered a non-exchange financial guarantee.

#### Guarantor Accounting

3.4.12.50 When it becomes *more likely than not* that the guarantor will be required to make a payment, the guarantor should recognize a liability (CR) and expense (DR) in its full-accrual financial statements. The amount recognized should be the discounted present value of the best estimate of

the future outflows expected to be incurred as a result of the guarantee. The expense should be classified as a grant or financial assistance to the other entity.

3.4.12.60 In modified-accrual financial statements, the guarantor should recognize the amount currently due and payable. The expense should be classified as a grant or financial assistance to the other entity. The guarantor should not record a receivable for any expected recoveries from the other entity because the likelihood of realization is so uncertain. Recoveries should only be recognized when realized.

### **Original Issuer Accounting**

3.4.12.70 The government that issued the debt continues to recognize the obligation in its financial statements until it is legally released from the debt.

If the government that issued the debt is required to repay the guarantor for any payments it made on its behalf, the government should reclassify that portion of the original obligation as a payable to the guarantor.

If the government that issued the debt is legally released from the obligation or from any liability to repay the guarantor it should recognize revenue to the extent of the reduction of the liabilities.

### **Blended Component Units**

3.4.12.80 In order to address the “doubling-up” of liabilities in the financial statements where this situation occurs between a primary government and a blended component unit, the government that issued the debt should recognize in its financial statements a receivable equal to the amount of the liability recognized by the guarantor. The receivable and payable are eliminated at the government-wide level.

### **Note Disclosures**

3.4.12.90 For requirements see [Note X, Financial Guarantees](#).

3.4.12.100 For a detailed discussion of the financial guarantees see [GASB Statement 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees](#).



**[2]** City/county/district may require the affidavit to be signed by a notary public.

## **Leases**

### **3.4 Liabilities**

#### **3.4.1 Leases**

3.4.1.10 A number of Washington municipalities are entering into tax-exempt municipal leases as a method of financing purchases of equipment. We want to emphasize some accounting procedures applicable to municipal leases:

1. The asset acquired with the lease should be capitalized at the outset of the lease agreement.
2. Future lease principal payments should be recorded either as debt redemption or as proprietary fund liabilities.
3. Expenditures to make principal payments on leases should be coded to a debt service object.
4. In the year of acquisition, the entire principal should be budgeted as a capital outlay with a credit to other financing sources. Interest and principal payments should be included in the comprehensive budget of the municipality; however, like other debt service obligations, formal appropriation authority is not required.

3.4.1.20 Any contract, whether it is called a conditional sales contract, a lease with an option to purchase, or a simple lease, should be let only after competitive bidding if the contract exceeds minimum bidding dollar requirements and has some provision for the vesting of title in the municipality at the end of the term of the contract. Such contracts should be bid regardless of whether title vests automatically or upon the payment of additional consideration.

3.4.1.30 Fiscal funding or cancellation clauses normally do not prevent a lease from being capitalized as long as the possibility of cancellation is remote.

## Legal and Other Contingencies

### 3.4 Liabilities

#### 3.4.15 Contingencies and Litigations

##### 3.4.15.10 **Contingency defined**

A contingency is defined as an existing condition, situation, or set of circumstances involving uncertainty as to possible gain (referred to as a gain contingency) or loss (referred to as a loss contingency) to a government that will ultimately be resolved when one or more future events occur or fail to occur.

[GASB Statement 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues](#) applies to loss contingencies related to the risks of financing related to torts (litigation), theft of assets, business interruption, errors and omissions, job related illness or injury, acts of God, and other risk assumed by a risk pool.

[GASB Statement 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements](#) applies to other loss contingencies such as uncollectability of receivables, encumbrances, guarantees, the pledge of the government's full faith and credit on G.O. debt intended to be financed by enterprise revenues, and various types of uncompleted contracts where the city/county/district is obligated to perform.

Despite guidance in two separate statements, the accounting treatment is essentially the same. While gain contingencies are recognized when the gain is actually realized, loss contingencies are susceptible to accrual and disclosure requirement depending upon several factors.

##### 3.4.15.20 **Use of estimates and uncertainty**

Not all uncertainties inherent in the accounting process give rise to contingencies as that term is used here. Estimates are required in financial statements for many ongoing and recurring activities of a government. The mere fact that an estimate is involved does not, in and of itself, constitute the type of uncertainty referred in this section.

##### 3.4.15.30 **Likelihood of an unfavorable outcome**

The likelihood of the occurrence of a future event that would confirm the loss (e.g. an unfavorable ruling in litigation) can be determined to be probable, reasonably possible, and remote as follows:

- Probable. The future event or events are likely to occur.
- Reasonably possible. The chance is more than remote but less than likely.
- Remote. The chance of the future event or events occurring is slight.

The determination as to the probability of an unfavorable outcome factors into the accounting treatment. Governments should work with their legal counsel to assess probability for claims during



preparation of the financial statements. Governments should monitor for any change that might affect the financial statements up until their issuance.

#### 3.4.15.40 **Recognition in the accounting records**

Contingent losses, net of reasonably certain expected insurance recoveries, must be reported in the government wide and proprietary fund financial statements as liabilities (and a related loss or expense) when they are both “probable” and “estimable”. Otherwise, they might require note disclosure. For other possibilities for recognition in the financial statements, see the chart in section 3.4.15.90.

In governmental funds, the liability is recorded when the amounts have become due and payable (i.e. the claim is settled or a judgement has been reached but the payment has not yet been made).

Governments should also work with legal counsel or other knowledgeable parties involved in the claim to determine the estimate of the loss. The “**estimable**” criteria is also met if the expected loss is a range. When some amount within the range appears at the time to be a better estimate than any other amount within the range, that amount should be accrued. When no amount within the range is a better estimate than any other amount, the minimum amount in the range should be accrued. Governments should monitor for changes that affect the ability to prepare an estimate, or the amount or range of an estimate, and consider the effect on the financial statements up until their issuance.

The claims liability must also include the incurred but not reported (IBNR) claims liability, when applicable. This is related to the claims that might have been incurred as of or prior to the balance sheet date, but are not yet received. It might be helpful to engage an actuary to assist with this estimate, although it is not required to do so.

For further guidance on these liabilities, refer to the GASB Codification, C50 *Claims and Judgements*.

#### 3.4.15.50 **Insurance recoveries**

Expected insurance recoveries are those where the government can reasonably expect it has insurance coverage or participates in a risk pool that will pay for the claim on their behalf. In situations where the insurer admits or acknowledges coverage, the government should be in a supportable position to offset a contingent liability by the expected recovery. However, in the following instances, the government might not be in a supportable position to offset the liability and should evaluate the likelihood that it will be required to pay its own claims.

1. There should be no disputes, disagreements, or other uncertainty with regard to the coverage of the claim(s).
2. The pool or insurance company must also be financially solvent and in a financial position to be able to pay the claim(s).

However, there may be some liability to report even when the risk of loss has transferred such as in the following situations:

1. For deductibles or self-insured retention (any dollar amount to be paid by the insured before the policy will pay). If there is a deductible or an SIR, the government should accrue for its portion of unpaid claims, both reported and IBNR.
2. If it's probable that the local government may be reassessed fees by the risk pool due to the risk pool experiencing excessive losses, then a liability should be accrued.

#### 3.4.15.60 **Unasserted claims**

An unasserted claim is one that the entity (or its legal counsel) is aware of, but has not been formally filed or otherwise asserted. A government must evaluate asserted claims and determine if there is a corresponding accounting treatment. This evaluation begins with the evaluation of the probability of the claim being actually asserted. For the corresponding accounting treatment, see the chart in section 3.4.15.90.

#### 3.4.15.70 **Required note disclosures**

If no accrual is made because the contingency does not meet the probable and estimable criteria, a disclosure might still be required, see the chart in section 3.4.15.90. Such disclosures should indicate the nature of the contingency and meet any additional disclosure requirements described in the chart, where applicable.

A disclosure should also be made in the situation where a liability was accrued, but where it is at least reasonably possible that the loss exposure exceeds the amount accrued.

#### 3.4.15.80 **Subsequent events**

After the date of an entity's financial statements (i.e. balance sheet date), but before those financial statements are issued, information may become available indicating that an asset was impaired or a liability was incurred *as of the date* of the financial statements or *after* the date of the financial statements. See the chart in section 3.4.15.90 for details on the accounting treatment for either of these potential situations.

#### 3.4.15.90 **Accounting treatment for contingencies**

		ACCOUNTING TREATMENT		
		REMOTE (slight chance to occur)	REASONABLY POSSIBLE	PROBABLE (likely to occur)
Asserted claims or contingency existing at date of financial statements	Not estimable	Not usually unless a guarantee in exchange or exchange-like transaction, see C50, p.163	Disclose nature of the contingency and state no estimate can be made	Disclose nature of the contingency and state no estimate can be made. If information available indicates that the estimate amount of loss is within a range of amounts, at minimum, lowest amount in the range should be accrued to the financial statements
	Reasonably estimable	Not usually unless a guarantee in exchange or exchange-like transaction, see C50, p.163	Disclose nature of the contingency and should provide one of the following; 1) an estimate of possible loss; 2) range of loss	Record in the financial statements and disclose; 1) the nature of the accrual, 2) in some circumstances, the amount accrued for the financials not to be misleading 3) additional exposure to loss when accrued amount is within a range.
Unasserted claims or contingency existing at date of financial statements	Probable of assertion and possibility of unfavorable outcome	See accounting treatment of an asserted claim		
	Not probable of assertion	No treatment		
Claims arising after balance sheet date	Loss existed at date of balance sheet	No treatment	Adjust financial statements for asset impairment or liability incurred. Disclose nature of the contingency and 1) an estimate of possible loss; 2) range of loss; 3) state that such an estimate cannot be made	
	Loss did not exist at date of balance sheet	No treatment	If disclosure is deemed necessary, disclose nature of the contingency and should provide one of the following; 1) an estimate of possible loss; 2) range of loss; 3) state that such an estimate cannot be made	

## Other Postemployment Benefits (OPEB)

### 3.4 Liabilities

#### 3.4.17 Other Postemployment Benefits (OPEB)

##### 3.4.17.10 **Introduction**

In June 2015, the Governmental Accounting Standards Board (GASB) issued two new standards for the accounting and financial reporting by state and local governments for postemployment benefits other than pensions.

- [Statement 74, \*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans\*](#) - Effective for fiscal years ended June 30, 2017 and after. This is the financial reporting requirements for OPEB plans administered through qualifying trusts. This statement replaces [GASB Statement 43](#) and is similar to [GASB Statement 67](#) for pension plans.
- [Statement 75, \*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions\*](#) - Effective for fiscal years ended June 30, 2018 and after. This is the accounting and reporting requirement for employers who provide OPEB benefits. This statement replaces [GASB Statement 45](#) and is similar to [GASB Statement 68](#) for pensions.

##### 3.4.17.20 **Key Reporting Changes:**

- The accounting and financial reporting for OPEB will align with that of pensions ([GASBS 67, 68, 71, 73, 78, and 82](#)).
- An OPEB liability (rather than an OPEB obligation) will be reported on the statement of position.
- Deferred outflows and inflows related to OPEB, in the same categories as those reported for pensions, will be reported on the statement of position.

See the [GASB OPEB Implementation Guide](#) for further information.

##### 3.4.17.30 **What is OPEB?**

OPEB refers to benefits, other than pensions, that are paid in the period after employment. OPEB includes:

- Postemployment healthcare benefits such as medical, dental, vision, hearing, etc., whether provided through a pension plan or separately; and
- Other benefits such as death benefits, life insurance, disability, long-term care, etc., when provided separately from a pension plan.

OPEB includes the direct payment of benefits and also explicit and implicit rate subsidies. An implicit rate subsidy is also referred to as a “blended premium rate.” It is caused by the inclusion of retirees in the same cost pool as active employees. As a result, retirees have the same premium rates as active employees and the rates for active employees implicitly subsidize the rates for

retirees (for example - the state's PEBB plan). This implicit subsidy is OPEB and must be included in the OPEB liability - even if retirees pay 100 percent of their premiums.

OPEB does not include termination benefits or termination payments for compensated absences.

#### 3.4.17.40 **Defined Benefit OPEB vs. Defined Contribution OPEB**

**Defined benefit** plans are those for which the benefits the employee will receive at or after separation from employment are defined by the benefit terms. OPEB may be stated as:

- A specified dollar amount
- An amount that is calculated based on one or more factors such as age, years of service, and compensation, or
- A type or level of coverage such as prescription drug coverage or a percentage of health insurance premiums.

**Defined contribution** plans have terms that:

- Provide an individual account for each employee;
- Define the contributions that an employer is required to make to an active employee's account for the periods in which the employee renders service; and
- Provide that the OPEB an employee will receive will depend only on the employee's account balance.

For defined contribution plans, there is no liability (other than amounts payable to the plan), deferred outflows, or deferred inflows to report. OPEB expense is the net amount of employer contributions made to the plan. Note that if only employees contribute to a defined contribution plan (and not the employer), the employer is not a participant and no disclosures are required. See [Note X, Pension and/or OPEB Plans - Defined Contribution](#).

#### 3.4.17.50 **Qualifying vs. Non-Qualifying Trust**

The accounting and financial reporting requirements for defined benefit OPEB plans is dependent on whether or not the plan is administered through a qualifying trust. A qualifying trust (or equivalent arrangement) is one that meets all three of the following criteria (see [GASBS 75](#), paragraph 4):

- Contributions to the plan and earnings are irrevocable - *Refunds and withdrawals are consistent with this criterion.*
- Plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms - *This is the criterion most often violated by the old, pre-LEOFF police and fire pension plans. Pension and OPEB assets cannot be commingled in the same trust fund as this indicates that plan assets are not dedicated solely to either pensions or OPEB. Pension and OPEB assets can be partitioned in the same fund, but this partition cannot be arbitrarily determined; it requires an actuarial determination.*

- Plan assets are legally protected from creditors.

Pay-as-you-go type plans (for example - the state's PEBB plan) are not a qualifying trust.

#### 3.4.17.60 Plan Type

The accounting and financial reporting requirements for defined benefit OPEB plans also vary depending upon plan type. Defined benefit plans are classified in one of the following categories:

- **Single-employer plan** - those in which OPEB benefits are provided to the employees of only one employer. The primary government and its component units are considered to be one employer. Each employer requires an individual actuarial valuation. This is the most common type of OPEB plan in the state. All pay-as-you-go plans are considered single-employer plans. Example: the state's PEBB plan.
- **Agent, multiple-employer plan** - OPEB plan assets are pooled for investment purposes, but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees. Each individual employer requires an individual actuarial valuation.
- **Cost-sharing, multiple-employer plan** - OPEB obligations to the employees of more than one employer are pooled and OPEB plan assets can be used to pay the benefits of the employees of any employer that provides OPEB through the plan.

Regardless of plan type, if the plan is not administered through a qualifying trust, each individual employer is considered to be a single employer participating in their own plan, and each individual employer must obtain their own actuarial valuation.

#### 3.4.17.70 Measurement of the OPEB Liability, Deferred Outflows, Deferred Inflows, and OPEB Expense

The amounts to be reported in the financial statements for the OPEB liability, deferred outflows, deferred inflows, and OPEB expense are determined through an actuarial valuation. The valuation report generally also includes relevant information for the note disclosures such as actuarial assumptions used, sensitivity analysis of the discount rate and the health care cost trend rate (if applicable), and the amortization of the deferred outflows and deferred inflows.

Actuarial valuations should be performed at least biennially. The valuation date can be no more than 30 months and 1 day prior to the employer's reporting date. The Total OPEB Liability should be measured as of a date (the measurement date) no earlier than the end of the employer's prior fiscal year, consistently applied from year to year. When the valuation date is prior to the measurement date, update procedures must be used to roll forward the valuation to the measurement date for the employer's reporting. There is no requirement to roll forward from the measurement date to the employer reporting date; neither is it prohibited. Professional judgment should be used to determine the specific update procedures to be used (the roll forward is usually done by the actuary).

In the first year of implementation of [GASBS 75](#), employers need both beginning and ending OPEB

amounts. A single actuarial valuation may be used to determine both the ending and beginning balances (by rolling back from the ending balances). See [GASB OPEB Implementation Guide](#) 2017-3, Q&A 4.499.

#### 3.4.17.80 Measurement Date

The OPEB amounts are reported in the employer's financial statements as of the measurement date. The earliest measurement date that can be used by an employer is one up to 12 months earlier than the reporting date. The following table shows the timing relationships between the valuation date, the measurement date, and the employer reporting date.

Earliest Available Valuation Date	Earliest Available Measurement Date Employer Can Use	Employer Reporting Date
12/31/2015	06/30/2017	06/30/2018
02/28/2016	08/31/2017	08/31/2018
06/30/2016	12/31/2017	12/31/2018

#### 3.4.17.90 Alternative Measurement Method

Plans with fewer than 100 participants (actives + retirees) as of the beginning of the fiscal year, have the option to use the alternative measurement method (see [GASB OPEB Implementation Guide](#), Illustration B7) in lieu of a professional actuarial valuation. Under this method, only the OPEB liability is calculated. There are no deferred outflows and inflows other than the deferred outflow for payments subsequent to the measurement date.

PEBB member employers or LEOFF 1 employers with fewer than 100 participants (actives + retirees) as of the beginning of the fiscal year may use the on-line calculation tools provided by the Office of the State Actuary (OSA). These tools are the alternative measurement method. They are only available for use by PEBB and LEOFF 1 employers, and should only be used by those with fewer than 100 participants. For additional information on these tools, go to the [OSA website](#).

Note - When using the OSA tools, active member data should be based on the number of employees eligible to participate, even if some have currently waived participation in the plan.

Plans, including PEBB and LEOFF 1, with 100 or more participants (actives + retirees) as of the beginning of the fiscal year, must obtain a professional actuarial valuation.

#### 3.4.17.100 Financial Statements

In the year of implementation of [GASBS 75](#), employers will make a direct adjustment to equity for the net effect of beginning balances of the OPEB liability and any relevant deferred inflows and outflows. This adjustment should also include the removal of any existing OPEB Obligation under [GASBS 45](#).

**Example:****Year 1 – Beginning Balances:**

- CR – Total (or Net) OPEB liability*
- DR – OPEB obligation (old GASBS 45 balance – if applicable)*
- DR – Deferred outflows (payments subsequent to the measurement date – if applicable)*
- DR – Net difference to unrestricted net position*

At year-end, employers will adjust the OPEB liability and the related deferred outflows and deferred inflows to actual as of the measurement date per the valuation. Also, adjust for payments subsequent to the measurement date. The net difference is an adjustment to OPEB expense. Do this at each subsequent year-end.

**Year 1 – Ending Balances (and future year-ends):**

- DR/CR – Adj. OPEB liability and relevant DO/DI to actual per measurement date*
- DR/CR – Net change to OPEB expense*

Plans administered through a qualifying trust report “net OPEB liability” because there is fiduciary net position (in the trust) to net against the total OPEB liability. The entire net OPEB liability is a non-current liability.

Plans not administered through a qualifying trust report “total OPEB liability” because there are no plan assets or fiduciary net position.

The “total OPEB liability” should be allocated between current and non-current liabilities in the financial statements. Since there is no trust fund to make the benefit payments, the employer is making the payments. So the amounts expected to be due within one year are current liabilities.

For GAAP statements that include multiple opinion units, the OPEB liability, and deferred outflows and deferred inflows related to OPEB, should be allocated between governmental and business-type activities in the government-wide statement of net position. OPEB expense should be allocated to the appropriate activities in the government-wide statement of activities. For proprietary and fiduciary funds, OPEB amounts should be reported in the specific funds they are related to and expected to be paid from. OPEB amounts, other than actual payments, should not be reported in governmental-type funds.

**3.4.17.110 Fiduciary Fund Financial Statements:**

- **Qualifying trusts** - If the plan is administered through a qualifying trust, the employer should report a statement of fiduciary net position and a statement of changes in fiduciary net position for the plan. The net OPEB liability is a liability of the employer to the plan and should not be reported in the fiduciary statements.
- **No qualifying trust** - When there is no qualifying trust, the employer cannot report a trust. There should be no fiduciary fund statements presented for the plan. Any assets accumulated in a fund should be reported as assets of the employer. In these circumstances, any OPEB fiduciary funds should be treated as managerial funds and rolled into the appropriate fund



(e.g., the general fund) for financial statement reporting.

#### 3.4.17.120 **Note Disclosures and Required Supplementary Information:**

Many of the significant note disclosures, such as the sensitivity analysis of the discount rate and the health care cost trend rate (if applicable) and the amortization of deferred outflows and inflows are provided by the actuary in the actuarial valuation report. There are different reporting requirements for plans administered through qualifying trusts v. those not administered through a qualifying trust.

See the BARS Manual for note and RSI instructions for:

- [OPEB plans administered through a qualifying trust](#)
- [OPEB plans not administered through a qualifying trust](#)

#### 3.4.17.130 **Non-governmental OPEB Plans**

Employers may have employees who are members of defined benefit OPEB plans that are not state or local government sponsored – example, a union sponsored plan. Participating employers report no OPEB liability, deferred outflows, or deferred inflows. OPEB expense is equal to contributions to the plan. See the BARS Manual for note disclosures. The only RSI required is a 10-year schedule of employer contributions.

For employers who contribute to non-governmental defined contribution plans, see [Note X, Pension and/or OPEB Plans - Defined Contribution](#).

#### 3.4.17.140 **OPEB - Frequently Asked Questions**

##### **Q - Does [GASBS 74](#) apply to my local government?**

A - Probably not. Statement 74 is the financial reporting requirements for OPEB plans that are administered through a qualifying trust or equivalent arrangement. A qualifying trust is one in which all of the following criteria are met:

- Contributions to the plan and earnings on those contributions are irrevocable
- Plan assets are dedicated to providing benefits to plan members in accordance with the benefit terms.
- Plan assets are legally protected from creditors.

Most plans in our state are not administered through a qualifying trust.

##### **Q - Does [GASBS 75](#) apply to my local government?**

A - If you provide OPEB to retirees, then the requirements of [GASBS 75](#) are applicable for the years ended 2018 and after.

Just like pensions, the new OPEB standards require local governments to report their OPEB

liabilities and related deferred outflows and deferred inflows on the face of the financial statements.

**Q - Where do I get my numbers?**

A - From an actuarial valuation. Unlike pension plans, most OPEB plans in the state are not centrally administered and there is no single actuarial valuation like the DRS PEFI for the state's pension plans. Many employers who provide OPEB will need to arrange for their own actuarial valuations.

For employers participating in the Public Employees Benefits Board (PEBB) program and LEOFF 1 employers, the Office of the State Actuary provides on-line valuation tools. These tools should only be used by employers with fewer than 100 participating plan members (includes active employees and retirees).

Employers participating in the Association of Washington Cities (AWC) or Washington Counties Insurance Fund (WCIF) programs should contact those programs directly. Employers who need individual valuations should contact their own actuaries to arrange for a valuation under the new standards.

**Q - I am a participating employer in the state's Public Employees Benefits Board (PEBB) plan. Do I provide OPEB?**

A - Yes. Participating employers provide OPEB through the plan's implicit and explicit rate subsidies for retirees. These subsidies lower the monthly premiums for retirees, and that is the OPEB benefit.

**Q - What is an "implicit rate subsidy?"**

A - This is also known as a "blended premium rate." It is caused by the inclusion of retirees in the same cost pool as active employees. As a result, retirees have the same premium rates as active employees and the rates for active employees implicitly subsidize the rates for retirees. This implicit subsidy is OPEB and must be included in your OPEB liability - even if retirees pay 100% of their premiums.

**Q - What is the Alternative Valuation Method?**

A - This is an alternative to a professional actuarial valuation and is specified by paragraphs 225 and 226 of [GASBS 75](#). It uses simplified assumptions and calculations. It can be used to measure the total OPEB liability if you have fewer than 100 plan members (includes active employees and retirees) as of the beginning of the year.

To determine your member count, consider each plan subscriber to be one member. For example:

- An active employee = 1
- An active employee and dependents = 1
- A retiree and spouse = 1

**Q - What is "census data?" Will there be census data testing?**

A - Census data is information about plan members, such as birthdate, gender, years of service, compensation, etc. Actuaries use census data to perform the valuation that determines the total OPEB liability.

Auditors will test the completeness and accuracy of census data provided by employers to the actuary.

## Pensions

### 3.4 Liabilities

#### 3.4.2 Pensions

##### 3.4.2.10 Introduction

In June 2012, the Governmental Accounting Standards Board (GASB) issued [Statement 68, Accounting and Financial Reporting for Pensions](#). The GASB also issued [Statement 71, Pension Transition for Contributions Made Subsequent to the Measurement Date \(amends GASB Statement 68\)](#). These statements amend the financial reporting requirements of [GASB Statement 27](#) and are effective for years ending in 2015 and after.

This guidance focuses on local governments participating in the State of Washington cost-sharing, multiple-employer pension plans. However, the concepts are also applicable to single employer plans.

#### Management's Responsibilities

This guidance is intended to assist local governments in the application of the new pension standards. Local governments must apply their own professional judgment to determine if this guidance is appropriate for their facts and circumstances and must draw their own conclusions about the proper application of the new pension standards. Entity management is solely responsible for the content of the financial statements. Each local government is responsible for evaluating the information used to recognize and disclose pension amounts in its financial statements. Preparers must understand the underlying accounting and reporting concepts for pensions and retain adequate supporting documentation for all amounts reported.

#### Key Reporting Changes:

- Net pension liability/(asset) is added to the statement of position
- Additional balances are introduced for deferred outflows and inflows related to pensions
- Pension expense is no longer equal to the contributions to the plan

These changes are limited to the government-wide and proprietary fund statements and do not impact the modified accrual, current resources focus of the governmental fund statements.

##### 3.4.2.20 Government-Wide Statement of Net Position (Example)

STATEMENT OF NET POSITION		
Fiscal Year Ended 20XX		
	Governmental Activities	Business-Type Activities
<b>ASSETS</b>		
Cash	\$ 100,000	\$ 200,000
Receivables	\$ 50,000	\$ 100,000
Capital Assets	\$ 10,000,000	\$ 100,000,000
Net Pension Asset	\$ 50,000	\$ 25,000
<b>DEFERRED OUTFLOWS of RESOURCES</b>		
Deferred Outflows Related to Pensions	\$ 100,000	\$ 50,000
<b>LIABILITIES</b>		
Payables	\$ 25,000	\$ 40,000
Long-Term Liabilities	\$ 5,000,000	\$ 50,000,000
Net Pension Liability	\$ 4,000,000	\$ 2,000,000
<b>DEFERRED INFLOWS of RESOURCES</b>		
Deferred Inflows Related to Pensions	\$ 50,000	\$ 25,000
<b>NET POSITION</b>	<b>\$ 1,225,000</b>	<b>\$ 48,310,000</b>
<i>Impacted by GASBS 68</i>		

### **Steps and procedures to calculate the proportionate share of collective pension amounts**

#### **3.4.2.30 STEP 1 - Get Your Data**

Much of the financial data necessary to apply GASB Statement 68 will be obtained from the State Department of Retirement Systems (DRS) at [www.drs.wa.gov](http://www.drs.wa.gov).

Download the *Participating Employer Financial Information* (PEFI) report from the Employers section of the website. This report is published annually, as of June 30.

This report includes the **Employer Allocation Schedules** and the **Schedules of Collective Pension Amounts** for each pension plan.

**Employer Allocation Schedules**: Each separate plan presents a schedule of employer allocations. The schedules are sorted by allocation percentage, largest to smallest, and you will need to search each schedule for your local government's name. Note that the PERS 1 and TRS 1 schedules have separate sections for both the regular allocation and the Plan 1 UAAL allocation. You will need both

allocation percentages. If you have more than one DRS ORG ID number, you will need to combine the allocation percentages.

#### What is the Plan 1 UAAL?

Under RCW [41.45.060](#), part of the contributions for PERS 2/3, SERS 2/3, PSERS 2, and TRS 2/3 are contributed to PERS 1 and TRS 1 to fund the plans' UAAL.

Employers have a responsibility to exercise due care in financial reporting and to verify and recalculate amounts specific to them. Use the DRS *eServices Contribution Reconciliation* system to verify the reasonableness of contributions used in the calculation of your proportionate share percentage. Note that the DRS calculates contributions based on the process date (the day after the transmittal date), not your reporting date. This may cause minor timing differences between your accounting records and the DRS.

Schedule of Collective Pension Amounts: The PEFI also includes the schedules of collective pension amounts for each plan. Employers will use the collective pension amounts and apply their proportionate share from the employer allocation schedules to determine their own share of pension amounts (i.e., net pension liability, deferred inflows/outflows). The use of this schedule is further disclosed below.

#### 3.4.2.35 **Measurement Date**

On the statement of net position, local governments will report a net pension liability or asset, deferred outflows and deferred inflows for the State plans in amounts that are measured as of June 30, (the measurement date). There is no need to "roll forward" these numbers to the employer's reporting date. This is a concession made by the GASB to accommodate timely financial reporting. If the measurement date was required to be the same as the financial statement date (the reporting date) it would be difficult for local governments to produce timely financial statements.

The earliest measurement date that can be used by an employer is one 12 months earlier than the reporting date. Therefore, local governments with a reporting date of June 30, 2019 can use either the June 30, 2018 schedules or the June 30, 2019 schedules for their year-end balances. Local governments with a reporting date of December 31, 2019 will use the June 30, 2019 schedules for their year-end balances.

<b>Earliest Available Valuation Date</b>	<b>Earliest Available Measurement Date Employer Can Use</b>	<b>Employer Reporting Date</b>
6/30/2017	6/30/2018	6/30/2019
6/30/2018	6/30/2019	8/31/2019
6/30/2018	6/30/2019	12/31/2019

#### 3.4.2.40 **STEP 2 - Calculate Your Numbers**

See Sample Illustrations for PERS 1, PERS 2, PSERS 2, LEOFF 1, and LEOFF 2 on the [GASB 68 Pension Worksheet](#).

The Schedules of Collective Pension Amounts for each plan are published near the back of the DRS report.

**Important! The amounts in the schedules of collective pension amounts are presented in thousands. You must multiply the amounts by \$1,000 to convert to whole dollars before calculating your individual amounts.**

For **each plan** in which you participate, multiply the amounts in these schedules by your unique allocation percentage to calculate your entity's share of each plan's pension liability, deferred outflows and deferred inflows. Note that the percentages reported in the employer allocation schedules are percentages, not simple decimal amounts.

#### 3.4.2.41 LEOFF - Special Funding Situation

LEOFF plans 1 and 2 include a special funding situation in which the State has a legal obligation to make contributions directly to the plans. Although the State makes the contributions, individual employers are required by GAAP to recognize pension expense and an equal amount of revenue for their share of these contributions.

LEOFF 1 is fully funded and there have been no contributions since the year 2000.

LEOFF 2: The total amount contributed by the State appears in the PEFI at the end of the LEOFF 2 Employer Allocation Schedule. Note that allocation percentages have not been calculated for individual employers and each individual employer must calculate their own share of the State's total contributions.

Formula: From page 123 of the 2019 PEFI, State of Washington special funding allocation percentage (39.572147%) divided by total State of Washington employer allocations (60.427853%) = **65.486601%**.

Example as of June 30, 2019: \$1,073,366 (employers LEOFF 2 contributions) x 65.486601% = \$702,911.

Journal Entry	DR	CR
Pension Expense	\$702,911	
Intergovernmental Revenue (BARS 3350301)		\$702,911

Employers will also use this allocation percentage to calculate the State's proportionate share of the net pension asset associated with the individual employer for their note disclosures (a requirement of [GASB Statement 68](#), paragraph 80).

Example as of June 30, 2019: \$13,487,184 (employer's LEOFF 2 asset) x 65.488601% = \$8,832,568 (State's proportionate share of the net pension asset associated with the employer).

Contributions are no longer made to LEOFF 1 and so employers need only disclose in the notes the State's proportionate share of the net pension asset associated with the employer.

Formula: From pages 112 and 113 of the 2019 PEFI, State of Washington special funding allocation percentage (87.12% divided by total State of Washington employer allocations (12.88%) = **676.397516%**.

Example as of June 30, 2019: \$2,847,545 (employer's LEOFF 1 asset) x 676.397516% = \$19,260,724 (State's proportionate share of the net pension asset associated with the employer).

#### 3.4.2.45 Overview of Journal Entries

Under [GASB Statement 68](#), annual pension expense is no longer the cash contributions made to the plans. Contributions are a reduction of the pension liability. [GASB Statement 68](#) does not change statutory contribution rates or cash flow and we recommend that you do not change the way payments to the DRS are recorded in your accounting system. You may want to consider the use of a "contra" account in your accounting system to accumulate all of the debits and credits to pension expense that result from [GASB Statement 68](#) journal entries.

#### 3.4.2.60 STEP 3 - Year-End Balances: Journal Entries for Ending Balances of Collective Pension Amounts

The [GASB Statement 68](#) permits the measurement date of the collective net pension liability used by a cost-sharing employer to be as of a date no earlier than the end of its prior fiscal year (i.e., 12 months earlier). Entities with a year end of December 31, 2019 will use the DRS PEFI report for the fiscal year ended June 30, 2019. Use your 2019 allocation percentages and the 2019 Schedules of Collective Pension Amounts to calculate your end of year amounts for each plan.

See Sample Illustrations for PERS 1, PERS 2, PSERS 2, LEOFF 1, and LEOFF 2 on the [GASB 68 Pension Worksheet](#).

The illustrations show the beginning and ending year pension related balances, journal entries and GL account detail for an entity with a December 31, 2019 year end. You must perform these calculations for each plan in which you participate.

Note for local governments with a June 30 year end. These instructions assume that entities with a June 30 year end will use the June 30, 2018 PEFI and defer contributions from July 2018 through June 2019 (12 months). However, you have the option of using the June 30, 2019 PEFI with no deferral of contributions, if available in time to meet your SAO reporting requirements. Once a measurement date is selected (current vs. one year prior) local governments should not switch back



and forth between the two dates over the years. This would be a change in accounting principle that would require a restatement of prior periods. When making your selection for the measurement date, keep in mind that there is no guarantee the current year's PEFI will be available by your annual report deadline.

#### 3.4.2.62 **Deferred Outflows/Inflows**

The following collective deferred outflows and inflows of resources are determined at the plan level:

- Net difference between projected and actual investment earnings on pension plan investments - amortized over five years
- Differences between expected and actual experience - amortized over the average expected remaining service lives of plan participants (amortization period provided by the DRS)
- Changes in actuarial assumptions - amortized over the average expected remaining service lives of plan participants (amortization period provided by the DRS)

Local governments will use their allocation percentages to calculate their individual proportionate shares of these deferred outflows and inflows. They will be amortized over the recognition periods published by the DRS in the PEFI.

There are two types of deferred outflows and inflows that must be calculated by individual employers:

- [GASB Statement 71](#) requires an employer's contributions subsequent to the plan measurement date and up to the end of the employer's reporting period to be reported as a deferred outflow of resources. State of Washington plans have a June 30 measurement date. Employers with a December 31 year end will defer the last six months of contributions. Due to the timing of the plan's financial reports, employers with a June 30 year end will defer 12 months. These amounts are reversed in the following year when the new year-end amounts are deferred. For your calculations, use actual contributions to the plans. Contributions from PERS 2/3, SERS 2/3, and PSERS that go to PERS 1 should be reported as PERS 1 contributions.
- Changes in proportionate share and differences between actual employer contributions and proportionate share of contributions - amortized over the average expected remaining service lives of plan participants (amortization period provided by the DRS). The DRS uses actual contributions to determine proportionate share, and so differences between actual employer contributions and the proportionate share of contributions is expected to be rare. However, an employer's proportionate share of each plan's collective liability and deferred outflows/inflows is expected to change each year. The effect of that change should be calculated at the beginning of the period.

#### 3.4.2.65 **Change in Proportionate Share**

Under [GASB Statement 68](#), if there is a change in proportion of the collective net pension liability

since the prior measurement date, the net effect of that change on the employer's proportionate shares of the collective net pension liability and collective deferred outflows of resources and deferred inflows of resources should be recognized in the employer's pension expense, beginning in the current reporting period, using a systematic rational method over a closed period (expected remaining service lives).

The DRS will maintain and publish the amortization schedules for the collective deferred outflows/inflows (see the June 30 Participating Employer Financial Report). Individual employers must maintain their own amortization schedules for the deferred outflows/inflows that result from the changes in proportionate share. Note that the PERS 1, TRS 1, and LEOFF 1 have a recognition period of one year, as of the beginning of the measurement period. As a result, all changes in proportion for these plans are expensed in the current year with no need to amortize.

See Sample Illustration of the calculation of changes in proportionate share and amortization schedules on the [GASB 68 Pension Worksheet](#).

*The provisions of GASB statements need not be applied to immaterial items. Governments may consider adopting an amortization threshold for their deferred outflows/inflows related to pensions. For example, amounts less than \$500 could be expensed in the current year rather than amortized over many years.*

#### 3.4.2.67 Allocation of pension amounts to funds and activities

[GASB Statement 68](#) does not mention specific requirements for allocation of pension-related amounts to individual funds. However, basic governmental accounting principles (see [GASB Statement 1, Authoritative Status of NCGA Pronouncements and AICPA Industry Audit Guide](#), paragraph 42) require that long-term liabilities that are directly related to and expected to be paid from proprietary-type funds be reported in those funds.

You should allocate the net pension liability, deferred outflows/inflows, and pension expense among governmental vs. business-type activities and individual proprietary-type funds. The SAO does not prescribe any particular method. However, entities should consider a method similar to that prescribed by [GASB Statement 68](#) for cost-sharing plans - "based on the manner in which contributions are assessed." For example, allocating to funds and activities based on their proportionate share of actual employer contributions to the plan (employee contributions should not be included):

<b>Contributions by Fund:</b>		
Governmental Funds	765.0k	60%
Utility Fund	385.5k	30%
IS Fund	125.5k	10%
	1,275k	100%

Many local governments with a PERS 1 liability do not have PERS 1 employees. We recommend you

use your PERS 2 contributions to make the allocation. Other methods may also be acceptable based on individual facts and circumstances. The allocation methodology used by the local government should be disclosed in the notes to the financial statements.

In the statement of activities, pension expense for governmental activities should be further allocated by function. Pension liability, deferred outflows/inflows, and pension expense should be reported in each applicable proprietary fund.

STATEMENT OF ACTIVITIES	
FYE 20XX	
<b>Expenses</b>	
<b>GOVERNMENTAL ACTIVITIES</b>	
General Government	\$ 123,456
Public Safety	\$ 12,345,678
Utilities	\$ 1,234,567
Transportation	\$ 12,345,678
Natural & Econ. Environment	\$ 123,456
Social Services	\$ 123,456
Culture & Recreation	\$ 12,345
<b>Total Governmental Activities</b>	<b>\$ 26,308,636</b>
<b>BUSINESS-TYPE ACTIVITIES</b>	
Utilities	\$ 12,345,678
Other	\$ 123,456
<b>Total Business-Type Activities</b>	<b>\$ 12,469,134</b>
<b>TOTAL GOVERNMENT</b>	<b>\$ 38,777,770</b>
<i>Impacted by GASBS 68</i>	

#### 3.4.2.80 Note Disclosures and Required Supplementary Information

[Note disclosures and required supplementary information](#) (RSI) required under GASB Statement 68 are available on the SAO website.

The RSI schedules of employer contributions should report the amount of contributions recognized

by each pension plan. Contributions from PERS 2/3, SERS 2/3, and PSERS 2 that go to PERS 1 should be reported as PERS 1 contributions.

Covered payroll is the payroll on which contributions to a pension plan are based (ref. [GASB 82](#), par. 5). Note that for PERS 1, covered payroll from PERS 2/3, SERS 2/3, and PSERS 2, should also be included in this calculation.

Note that the RSI schedules have two different measures of covered payroll. The *Schedule of Proportionate Share of the Net Pension Liability* is dated as of the plan's measurement date (6/30 for state plans). The *Schedule of Employer Contributions* is dated as of the employer's year end. In cases where these two dates are different, the amounts reported for covered payroll will be different.

## Refunding Debt

### 3.4 Liabilities

#### 3.4.4 Refunding Debt

3.4.4.10 Any government in the state of Washington may extinguish debt prior to the debt maturity date. The refunding is authorized by Chapter [39.53](#) RCW also known as the Refunding Bond Act.

3.4.4.20 An advance refunding occurs when previously issued debt is retired as it matures or at a call date at least in part by a new debt issue. Usually refunding is done to take advantage of lower interest rates or to modify debt service requirements. Often the proceeds from the sale of new debt with a lower interest rate are used to pay off old debt with a higher interest rate. Refunding is financially worthwhile when the present value of the savings from lower interest rates on the refunding debt plus any income from the investment of the refunding debt proceeds pending redemption of debt to be refunded are greater than the present value of the fees, sales discounts, redemption premiums and other costs of refunding.

3.4.4.30 There are two ways to structure the advance refunding of debt: the regular method and the crossover method.

The following definitions apply to the terms used here:

- Refunding debt (sometimes referred to as *new debt*) - debt issued to provide funds to replace the refunded debt at specified dates.
- Refunded debt (sometimes referred to as *old debt*) - debt for which payment at specified dates has been provided by the issuance of refunding debt.

#### Regular Method of Advance Refunding

3.4.4.40 Under the regular method of advance refunding there can be either a legal or an in-substance defeasance.

3.4.4.50 A **legal defeasance** occurs when debt is legally satisfied based on certain provisions in the debt instrument, even though the debt is not actually paid. A legal defeasance is rare in the government environment and generally occurs only when an amount sufficient to pay both principal and interest at the time of deposit is placed in an irrevocable trust with an independent escrow agent. A government is released from its legal status as the primary obligor on outstanding indebtedness after an escrow account is established (the government is only contingently liable).

3.4.4.60 In an **in-substance defeasance** debt is considered to be extinguished for financial reporting purposes even though a government has not met the legal requirements for a defeasance and so legally remains the primary obligor on the indebtedness. The proceeds from the sale of

refunding (new) debt together with any other funds the entity may set aside for payment of refunded debt must be irrevocably placed with an escrow agent in a trust. The escrow agent invests the proceeds so that the cash realized from the maturing investments together with interest earned will meet the debt service requirements of the refunded (old) debt and redeem the balance of the old debt when it becomes callable or matures. Cash or other assets used for refunding must qualify as “essentially risk-free as to amount, timing and collection of principal and interest” and they must provide cash flows that are sufficient and timed to match the scheduled interest and principal payments on the debt that is being extinguished. Also, the chance of the government being required to make any additional future payments must be remote.

3.4.4.70 Generally, the requirement for “essentially risk-free” securities may be accomplished through the purchase of U.S. government securities, securities guaranteed by the U.S. government, or U.S. government backed securities.

3.4.4.80 The government does not budget or report any refunded (old) debt. However, the government is responsible for verifying the amounts reported by the trustee. The amount of the old debt should be disclosed in a note to financial statements.

3.4.4.90 Since governmental funds operating statements reflect only the financial resource flows related to the refunding transaction, they do not report a gain or loss on an advance refunding resulting in defeasance.

3.4.4.91 Per [GASB Statement 86, \*Certain Debt Extinguishment Issues\*](#), payments to the escrow agent made from the existing resources should be reported as debt service expenditures in financial statements using the current financial resources measurement focus.

3.4.4.100 The provisions of the Refunding Bond Act (Chapter [39.53](#) RCW) satisfy the criteria for in-substance defeasance, except for the requirement to place cash and assets in an irrevocable escrow. If the irrevocable trust fund is not established, both the refunded (old) and the refunding (new) debt must be recorded and reported in the government’s financial statements.

3.4.4.110

#### Journal Entries Governmental Funds

The refunded (old) debt is no longer reported on the government-wide statement of net position. The unmatured refunding (new) debt is reported on the government-wide statement of net position and the debt service on the new debt is recorded, budgeted and reported in the debt service fund.

Because governmental funds focus only on current financial resources, they do not report long-term debt principal in the funds. It is reported in the government-wide statement of net position.

111.00	Cash		
		3930000	Other Financing Sources – Proceeds of Refunding Long-Term Debt

To record proceeds from sale of refunding (new) debt.

599PP70	Other Financing Uses – Payment to Refunded Debt Escrow Agent		
593PP70	Advance Refunding Escrow [1]		
		111.00	Cash

To record transfer to the escrow agent.

[1] Payment made from a source other than refunding (new) debt.  
 592PP80 Debt Service Cost

111.00	Cash (or 213.10 Accounts Payable)
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To record payment of refunding (new) debt issuance cost from the debt service fund current resources (not from proceeds generated from new debt).

3.4.4.120

Journal Entries  
Proprietary Funds



25X.30	Unamortized Discount on Refunding (new) Debt [2]
25X	Bonds Payable (old)
231.10	Accrued Interest Payable (old)
143.10	Unamortized Insurance Cost (new)
198.20	Deferred Amount on Refunding [1]
25X.20	Unamortized Premium on Refunded (old) Debt
25X.20	Unamortized Premium on Refunding (new) Debt [2]
25X	Bonds Payable (new)
151.00	Restricted Assets [3]
25X.30	Unamortized Discount on Refunded (old) debt

To record issuance of refunding (new) bonds and extinguishment of refunded (old) debt.

592PP80	Interest Expense
198.20	Deferred Amount on Refunding

To record amortization of deferred amount on refunding.

**[1]** *Deferred Amount on Refunding* is the difference between:

1. Reacquisition price is the amount required to repay previously issued debt in a refunding transaction. In a current refunding, this includes principal of the old debt and any call premium. In an advance refunding, it is the amount placed in the escrow account that, together with interest earnings, is necessary to pay interest and principal on the old debt and any call premium. A premium or discount pertaining to the new debt is not considered part of the reacquisition price, but, instead, is a separate item related to and amortized over the life of the new debt.

2. Net carrying amount is the amount due at maturity, adjusted for any unamortized premium or discount related to the old debt, as well as any deferred outflows of resources or deferred inflows of resources associated with a derivative instrument that is an effective hedge of the old debt and remaining prepaid insurance related to extinguished debt ([GASB Statement 86, Certain Debt Extinguishment Issues](#)).

The difference between the reacquisition price and the net carrying amount of the old debt should be reported as a deferred outflow of resources or a deferred inflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter.

**[2]** Use either account depending if the refunding (new) debt was issued at premium or discount.

**[3]** Use this entry if there are funds available in various restricted assets accounts for payment of

refunded (old) debt.

### **Crossover Method of Advance Refunding**

3.4.4.130 In this type of refunding the proceeds from issuance of refunding (new) debt are placed in the escrow account. The escrow account does not immediately make payments on the refunded (old) debt principal and interest. Instead, it pays all or a portion of the refunding (new) debt's principal and interest until a crossover date when the refunded (old) debt can be called or it matures and the amount accumulated in escrow is sufficient to repay it. Until the crossover date, both the refunded (old) and refunding (new) debt would be reported in the financial statements.

3.4.4.140 Until the crossover date, the debt service on the refunded (old) debt is recorded and budgeted in the debt service fund. Assets held in the trust by the escrow agent to pay debt service on the refunding (new) debt are also recorded in the debt service fund. Both the refunded (old) and refunding (new) debt are reported on the statement of net position, pending the crossover date.

The new debt is not to be included in the computation of indebtedness for the purpose of any constitutional or statutory debt limit.

3.4.4.150

#### Journal Entries Governmental Funds

115.00	Deposits with Fiscal Agents/Trustees		
	3930000		Other Financing Source – Proceeds of Refunding Long-Term Debt
	111.00		Cash [1]

To record establishment of the escrow account.

[1] Transfer of resources other than proceeds of refunding debt (e.g., excess of cash available for the refunding transaction).

3.4.4.160

#### Journal Entries Proprietary Funds

115.00	Cash with Fiscal Agent	
25X.30	Unamortized Discount on Refunding (new) Debt [1]	
592PP80	Issuance Cost (new)	
	25X.00	Bonds Payable (new)
	25X.20	Unamortized Premium on Refunding (new) Debt [1]
	110.00	Cash [2]

To record issuance of refunding (new) debt.

25X.00	Bond Payable (old)	
214.00	Accrued Interest Payable (old)	
25X.20	Unamortized Premium on Refunded (old) Debt	
198.20	Deferred Amount on Refunding [3]	
	25X.30	Unamortized Discount on Refunded (old) Debt
	115.00	Cash with Fiscal Agent

To remove the refunded (old) debt at the crossover date.

- [1] Use either account depending if the refunding (new) debt was issued at premium or discount.
- [2] Transfer of resources other than proceeds of the refunding debt (e.g., excess of cash available for the refunding transaction).
- [3] See journal entry for the defeasance method for description of this account.

## Risk Management Principles

### 3.4 Liabilities

#### 3.4.9 Risk Management Principles

3.4.9.10 This interpretation establishes the accounting and financial reporting requirements for risk management activities of local governments. It implements the Governmental Accounting Standards Board (GASB), [Statement 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues](#), as amended by [GASB Statement 30, Risk Financing Omnibus](#), [GASB Interpretation 4, Accounting and Financial Reporting for Capitalization Contributions to Public Entity Risk Pools](#), and Chapter [48.62](#) RCW. Unless otherwise noted, this section applies to all self insurance arrangements including property and liability (i.e., property and casualty), health and welfare (medical, dental, etc.), unemployment, and industrial insurance.

#### Accounting Standards

3.4.9.20 The [GASB Statement 10](#) and [Interpretation 4](#) prescribe the accounting standards for risk financing and related insurance issues.

#### Risk Transfer

3.4.9.30 A discussion related to transfer of risk is included in [GASB Statement 10](#), paragraphs 7-9 and should be considered for each program.

#### Accounting for Contributions to Risk Pool

3.4.9.40 A capitalization contribution to a public entity risk pool WITH transfer or pooling of risk should be reported as a deposit if it is **probable** that the contribution will be returned to the entity upon either the dissolution of or the approved withdrawal from the pool. An entity's determination that the return of the contribution is probable should be based on the provisions of the pooling agreement and an evaluation of the pool's financial capacity to return the contribution. In governmental funds, fund balance should be classified as nonspendable to indicate that the deposit is not appropriable for expenditures.

3.4.9.50 If it is **not probable** that a capitalization contribution will be returned, the contribution should be reported:

1. In governmental funds, the entire amount of the capitalization contribution may be recognized as expenditure in the period of the contribution; reporting of prepaid insurance is not required. Otherwise the contribution should be reported initially as prepaid insurance (an asset), and expenditures should be allocated and recognized over the periods for which the pool is expected to provide coverage. If prepaid insurance is reported, fund balance should be classified as nonspendable to indicate that the amount is not appropriable for expenditures.

2. In proprietary funds, the contribution should be reported initially as prepaid insurance (an asset), and expenses should be allocated and recognized over the periods for which the pool is expected to provide coverage.

In both cases, the periods expected to be covered should be consistent with the periods for which the contribution is factored into the pool's determination of premiums but should not exceed ten years if is not readily determinable.

3.4.9.60 A capitalization contribution to a public entity risk pool WITHOUT transfer or pooling of risk should be reported as a deposit or a reduction of claims liabilities.

#### Accounting Related to Claims

3.4.9.70 Local governments are required to report an estimated loss from a claim as an expenditure/expense and as a liability if both of these conditions are met:

1. Information available before the financial statements are issued indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements. It is implicit in this condition that it must be probable that one or more future events will also occur, confirming the fact of the loss.
2. The amount of the loss can be reasonably estimated.

3.4.9.80 If a government uses a single fund to account for its risk financing activities, that fund should be either the general (current expense) fund or an internal service fund. Both funds must use the method described above for calculating claims liabilities. However, the following procedures also apply:

3.4.9.90 1. If the general fund is used, accounting and reporting must be on the modified accrual basis of accounting.

The entity may use any method it chooses to allocate loss expenditures/expenses to the other funds of the entity. However, if the total amount charged to the other funds, (including the general fund itself) exceeds total expenditures and liabilities, the excess amounts should be reported as transfers. Transactions that constitute reimbursements of a fund for expenditures/expenses initially made from it that are properly applicable to another fund should be reported as expenditures/expenses in the reimbursing fund and as reductions of the expenditure/expense in the fund that is reimbursed.

3.4.9.100 2. If an internal service fund is used, accounting and reporting must be on the full accrual basis of accounting.

The internal service fund should recognize both current and long-term claims expenses and liabilities for its risk financing activities within the fund.

The internal service fund may use any basis it considers appropriate to charge other funds of the entity, as long as the following conditions are met:

- a. The total charge by the internal service fund to the other funds for the period is calculated in accordance with [GASB Statement 10](#), paragraphs 53 through 57; or,
- b. The total charge by the internal service fund to the other funds is based on an actuarial method or historical cost information and adjusted over a reasonable period of time so that internal service fund revenues and expenses are approximately equal.
- c. In addition to (2) above, the total charge by the internal service fund to the other funds may also include a reasonable provision for expected future catastrophe losses.

Charges made in accordance with the foregoing provisions should be recognized as revenue by the internal service fund and as expenditures/expenses by the other funds of the entity. Deficits, if any, in the internal service fund resulting from the application of (2) and (3) above do not need to be charged back to the other funds in any one year, as long as adjustments are made over a reasonable period of time; however, a deficit fund balance of the internal service fund should be disclosed in the notes to financial statements.

If the charge by the internal service fund to the other funds is greater than the amount resulting from the application of (1) through (3) above, the excess should be reported in both the internal service fund and the other funds as a transfer.

If the charge by the internal service fund to the other funds fails to recover the full cost of claims over a reasonable period of time, any deficit fund balance in the internal service fund should be charged back to the other funds and reported as an expenditure/expense of those funds.

#### Loss Recognition Principle

3.4.9.110 Current generally accepted accounting principles continue to apply to all state and local governments. These principles require entities to recognize loss liabilities and related expenditures/expenses in conformity with the [GASB Statement 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements](#). These principles are as follows:

When a loss contingency exists, the likelihood that the future event or events will confirm the loss or impairment of an asset or the incurrence of a liability can range from probable to remote. These terms are defined as follow:

- a. Probable. The future event or events are likely to occur.

b. Reasonably possible. The chance of the future event or events occurring is more than remote, but less than likely.

c. Remote. The chance of the future event or events occurring is slight.

3.4.9.120 If a claim is asserted and the probable loss is reasonably estimable, the expenditure/expense and liability should be recognized in the financial statements. Incidents often occur before the end of the accounting period where claims are not reported or asserted when the financial statements are prepared. If an incurred but not reported (IBNR) loss can be reasonably estimated, and it is probable that a claim will be asserted, the expenditure/expense and liability should be recognized.

3.4.9.130 Financial statement footnote disclosure should be made for any contingent liability for claims when there is at least a reasonable possibility that a loss may have been incurred. This disclosure would indicate the nature of the contingency and should give an estimate of the possible loss or range of loss, or state that such an estimate cannot be made.

Financial statement footnote disclosure is not required for a loss contingency involving an unreported claim or assessment if there has been no manifestation by a potential claimant of an awareness of a possible claim or assessment unless it is considered probable that a claim will be asserted and there is a reasonable possibility that the outcome will be unfavorable.

#### Financial Statement Disclosures

3.4.9.140 The financial statement disclosures may be made for the entity as a whole. However, there may be circumstances when aggregate disclosures are misleading. In those circumstances, additional or separate presentation should be made by fund or by fund type. In addition, there may be circumstances under which disclosures by fund or by fund type may provide more useful information than disclosures presented in the aggregate. Specific Illustrative Examples of disclosures are provided in Appendix D to [GASB Statements 10](#) and [30](#).

3.4.9.150 If a pool included in the oversight entity's financial report issues its own separate report, the report should emphasize oversight entity disclosures about its participation in a pool and provide reference to the separate report of the pool.

3.4.9.160 Component units that participate in their oversight entity's risk management internal service fund should make the disclosures required above in their separately issued component unit financial statements. The component unit should also disclose the fact that the unit participates in the fund, including a description of the nature of that participation, and state the rights and responsibilities of both the unit and the oversight entity.

#### Additional Reporting

3.4.9.170 The following section describes additional reporting for entities engaged in self-insurance or self-funding as well as risk assumption. These reporting requirements are not applicable if the only risk financed or assumed is an annual deductible of a purchased insurance policy. Members of

public entity risk pools are not required to report risks transferred to the pool but are required to report all other retained risk(s).

3.4.9.180 Report to State Auditor's Office by Local Governments which Individually Assume Risk or Self-Insure.

This section establishes reporting requirement for all local governmental entities which individually self-insure (with a formal risk financing plan) or assume risk (without a formal risk financing plan). Report must be submitted to the State Auditor's Office each year as part of the government's annual report. The information which must be included in this report is defined in [Schedule 21, Risk Management](#).

3.4.9.190 Report to State Auditor's Office by Entities which Provide Insurance Coverage or Claims Servicing to Others.

This section establishes annual reporting requirements for all entities organized under Chapter [48.62](#) RCW which provides insurance coverage (with or without claims servicing) to pool members or others (aka joint programs). This requirement applies to both stand-alone public entity risk pools and programs which are part of a parent entity. Report must be submitted to the State Auditor's Office each year as part of the government's annual report. The information which must be included in this report is defined in [Schedule 21, Risk Management](#).

3.4.9.200 Accounting standards provide the following definitions for those entities which provide claims servicing or insurance coverage to others:

- a. If an entity provides insurance or risk management coverage separate from its own risk management activities to individuals or organizations outside the governmental reporting entity and there is material transfer or pooling of risk among the participants, that activity should be accounted for as a public entity risk pool. The governmental reporting entity is the oversight unit, and all related component units, if any, must be combined in accordance with the GASB Codification Section 2100, *Defining the Financial Reporting Entity*.
- b. If an entity provides risk transfer or pooling coverage combined with its own risk management activities to individuals or organizations outside its reporting entity, those activities should continue to be reported in the general fund or an internal service fund only as long as the entity is the predominant participant in the fund. If the entity is not the predominant participant in the fund, then the combined activities should be reported as a public entity risk pool using an enterprise fund.
- c. If an entity performs claims-servicing functions, not insurance functions, for individuals or organizations that are not a part of the governmental reporting entity, amounts collected or due from those individuals or organizations and paid or to be paid to settle claims should be reported as an asset or liability on an accrual basis, as appropriate. The operating statement should report claims-servicing revenue and administrative costs from these activities.



## Solid Waste Utilities: Closure and Postclosure Cost

### 3.4 Liabilities

#### 3.4.8 Solid Waste Utilities: Closure and Postclosure Cost

This guidance applies only to cities and counties.

#### Background

3.4.8.10 The Department of Ecology (Ecology) mandates funding of solid waste landfill closure and postclosure costs in WAC [173-304-467](#), WAC [173-351-600](#), and WAC [173-350-400](#) subsection 8. The standards prescribe specific closure and postclosure care procedures and the funding of them. While these standards apply to a landfill's closure and postclosure, they are associated with its operation and represent a material cost to be recognized during its operation.

3.4.8.20 In August 1993, the Governmental Accounting Standards Board (GASB) issued [Statement 18, Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs](#). This Statement establishes standards of accounting and financial reporting for municipal solid waste landfill closure and postclosure care costs that are required to be incurred by federal, state, and local laws or regulations.

#### Department of Ecology Guidelines

3.4.8.30 WAC [173-304-467](#), WAC [173-351-600](#), and WAC [173-350-400](#) require each owner or operator to prepare written closure and postclosure cost estimates as part of the facility closure and postclosure plans. These plans are to be reviewed annually and adjusted for cost changes, including inflation.

3.4.8.40 Each owner or operator is also required to either establish a reserve account or provide another form of financial assurance that, over the life of the facility, funds will be adequate to cover the costs of closing the facility and performing postclosure activities in accordance with state and federal regulations (RCW [70.95.215](#)). Ecology rules require that reserve accounts be set aside as restricted assets. These requirements apply to all landfill disposal facilities.

#### GAAP Reporting

3.4.8.50 Landfills using proprietary fund accounting and reporting should recognize a portion of the closure and postclosure costs as an expense and liability in each period that they accept waste. The estimated cost assigned to each period should be based on the landfill use rather than the passage of time. [GASB Statement 18](#) prescribes the following formula to determine the current period amount:

$$\frac{\text{Estimated total closure cost} \times \text{Cumulative capacity used (Amount previously recognized)}}{\text{Total estimated capacity}}$$

3.4.8.60 Landfills using governmental fund accounting and reporting should use the same method as proprietary funds for the measurement and recognition of the accrued liability for closure and postclosure costs (described above).

3.4.8.70 [GASB Statement 18](#) also provides guidance on equipment which is a part of the closure costs, versus equipment that is used during normal operations. The estimated cost of equipment expected to be part of the closure costs should be included in the closure cost estimate and the liability as calculated for each period. Such equipment cost should not be capitalized. When these assets are acquired, they should be reported as a reduction of the liability.

3.4.8.80 [GASB Statement 18](#) requires state and local governments to disclose the nature and source of landfill closure and postclosure care requirements, the nature of estimates, the reported liability at the balance sheet date, the estimated cost remaining to be recognized, the percentage of landfill capacity used to date, and the estimated remaining landfill life in years. Governments also are required to disclose how closure and postclosure care financial assurance requirements are being met.

3.4.8.90 Local governments should report their estimated land fill closure and postclosure liability on [Schedule 09, Liabilities](#).

## Deferred Outflows/Inflows of Resources

### Accounting and Reporting of Property Tax

#### 3.5 Deferred Outflows/Inflows of Resources

##### 3.5.2 Accounting and Reporting of Property Tax

3.5.2.10 Property tax revenue should be recognized in the period for which levied, regardless of when they are due or collected. It should be reported on the date which the government has an enforceable legal claim to the resources or in the beginning of the period for which levied, if sooner. In Washington State the date for both situations is January 1.

##### 3.5.2.20 Government-Wide Financial Statements

According to above accounting guidance the entity should not recognize any tax in the 201X **[1]** financial statements for the 201Y **[2]** fiscal year, except if somebody prepays the 201Y tax; the prepaid tax should be recorded as cash offset by deferred inflow of resources (DR Cash/CR Deferred Inflow of Resources).

So, the 201X financial statements should report tax receivable for uncollected 201X tax (and the tax was already recognized as revenue) and deferred inflows of resources related to prepaid tax for 201Y. This transaction (DR Cash/CR Deferred Inflows of Resources) will be reversed in 201Y when the prepaid tax will become revenues. Since most likely the prepayments don't happen often, the amounts are immaterial and it will be quite common not to see any deferred inflows related to property tax on government-wide financial statements.

##### 3.5.2.30 Fund Financial Statements

On December 31, 201X an entity should report accounts receivable for uncollected 201X tax. Revenues should be recorded for the outstanding amount expected be collected within the availability period (set by policy, typically 60 days). The amount expected to be collected after the availability period should be recorded as deferred inflows of resources (unavailable tax). The only other deferred inflows of resources related to property tax would be any tax prepaid for 201Y.

In the 201X the amount of deferred inflows would be also adjusted for the previous years' delinquent taxes.

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**[1]** 201X indicates reporting year

**[2]** 201Y indicates subsequent year

## Classification of Deferred Outflows/Inflows of Resources

### 3.5 Deferred Outflows/Inflows of Resources

#### 3.5.1 Classification of Deferred Outflows/Inflows of Resources

3.5.1.10 [GASB Statement 65, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position](#) requires local governments to distinguish *assets* from *deferred outflows of resources* and *liabilities* from *deferred inflows of resources*.

3.5.1.20 **Assets** are resources with present service capacity that the government presently controls.

- Prepayments such as rent, insurance, etc.

3.5.1.30 **Deferred outflow of resources** is a consumption of net assets by the government that is applicable to a future reporting period. Deferred outflows are always debits.

- Accumulated decrease in fair value of hedging derivatives.
- Grants paid in advance when all eligibility requirements except timing requirement have been met.
- Deferred loss on refunding.
- Deferred outflows related to pensions.
- Deferred outflows related to OPEB.
- Goodwill - when an acquiring government provides a consideration exceeding the net position acquired ( [GASB Statement 69, Government Combinations and Disposal of Government Operations](#) ).

3.5.1.40 **Liabilities** are present obligations to sacrifice resources that the government has little or no discretion to avoid.

- Derived tax revenues (e.g., sales tax, MVFT, hotel/motel tax, etc.) received in advance.

3.5.1.50 **Deferred inflow of resources** is an acquisition of net assets by the government that is applicable to a future reporting period.

- Accumulated increase in fair value of hedging derivatives.
- Deferred service concession arrangement receipts.
- Grants received in advance when all eligibility requirements except timing requirement have been met.
- Deferred gain on refunding.
- Sale of future revenues.
- Special assessments.
- Deferred inflows related to pensions.
- Property taxes received (or any other imposed nonexchange transactions).
- Assets recorded in governmental funds before the revenue is available (e.g., courts

receivables, etc.).

3.5.1.60 GASB expressly reserved for itself the determination of which items traditionally reported as assets or liabilities should be reclassified as deferred outflows or inflows of resources. The use of the term *deferred* should be limited to items reported as deferred outflows or inflows of resources.

3.5.1.70 Do not confuse the *deferred inflows* or *deferred outflows of resources* with *inflows of resources* or *outflows of resources*.

**Inflows of resources** (i.e., revenues) is an acquisition of net assets by the government that is applicable to the current reporting period. Example: loan origination fees (except for the portion related to points), etc.

**Outflows of resources** (i.e., expenses) is a consumption of net assets by the government that is applicable to the current reporting period. Example: debt issuance costs (other than prepaid insurance), etc.

3.5.1.80 When the amounts of deferred inflows and outflows are presented in the statement of net position or a governmental fund balance sheet in aggregation, [GASB Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position](#) requires the governments to provide details of different types of deferred amounts in the notes to financial statements if significant components of the total deferred amounts are obscured by aggregation.

# Revenues

## Cash Receipting

### 3.6 Revenues

#### 3.6.1 Cash Receipting

3.6.1.10 Cash receipting is a very important function of all governments. Listed below are requirements for deposits and receipt forms.

##### 3.6.1.20 Deposits

1. Every public officer and employee, whose duty it is to collect and receive payments should deposit receipts with the treasurer of the local government at least once every 24 hours. The treasurer of the local government may grant an exception where such daily transfers would not be administratively practical or feasible (RCW [43.09.240](#)).

2. Deposits must be made intact, meaning all payments received must be deposited without substitution. This is evidenced by the composition of checks and cash listed on the deposit slip matched to related receipt records.

3. Checks must be restrictively endorsed *For Deposit Only* immediately upon receipt.

4. Separate bank accounts may be used to receipt funds and transfer to a master account in order to facilitate timely collection of cash in remote areas or as part of the government's banking structure. These accounts (which may be referred to as zero-balance, clearing, transmittal or depository accounts), should be swept at least monthly and be independently reconciled the same as all other bank accounts.

##### 3.6.1.30 Receipt Forms (manual or automated)

1. Receipts should be pre-numbered and imprinted with the name of the local government.

2. Receipts must include the following information:

- Identification of payor.
- Amount received.
- Mode of payment (cash, check, credit card, other).
- Purpose of payment.
- Identification of employee who prepares receipt.

3. Generic receipt forms should not be used (e.g., Rediform, etc.).

4. In instances where cash is received at decentralized locations (e.g., police department, parks department, etc.), the local government treasurer may combine those receipts onto one treasurer's

receipt. The treasurer's receipt should indicate the total amount received from each location as well as the appropriate account codes.

5. If a receipt is voided, the original and any copies of that receipt must be retained.

#### 3.6.1.40 Internal Control

See the BARS manual 3.1.3, [Internal Control](#) for general guidance on internal controls. The following are minimum expected controls for cash receipting:

1. More than one employee should open the daily mail and prepare a list of cash and checks received (remittance list). If dual custody is not feasible, the government should consider compensating controls such as having mail opened in an area observable by other employees or stronger monitoring controls over revenues.
2. Deposits may be prepared by the person who received the payment. The government should implement a system of supervisory review of the remittance list and bank deposits to ensure deposits are made intact.
3. Checks received in the mail should be briefly reviewed for accuracy (e.g., proper payee, date, signature of payor, etc.). Checks with obvious inaccuracies should not be included in the deposit. In such a case, the entity should contact the payor and request that the payment be corrected or reissued.
4. The daily remittance list should be compared (reconciled) to daily deposit slips and to the cash receipts journal (or check register) on a regular basis. This should be performed by someone other than the employee who prepared the remittance list. Any shortage should be resolved.
5. A duplicate copy of the bank-validated deposit slip showing the composition of receipts should be retained by someone other than the employee making up the deposit.
6. The bank statement reconciliation should be performed by a person who does not have custody of or access to cash during any point in the receipting and depositing process. This reconciliation should include comparing deposits per bank to recorded receipting transactions in the general ledger.
7. Deposits should be physically safeguarded using bank bags with locks or other tamper-proof devices.
8. Receipts should be physically safeguarded during the operating day and secured in a safe or vault overnight. Access to the cashiering area should be appropriately restricted whenever possible.
9. Access to the safe or vault should be limited and combination should be changed periodically.

In addition, the safe and vault combination should be changed after employees terminate employment.

10. If the government utilizes cash registers, there should be one change fund and one cash register (or drawer) per cashier. This enables assignment of responsibility for cash to a specific individual at all times.

11. Policies should contain instructions for identifying cash receipts and for dating cash receipts journal entries for that day's receipts.

#### 3.6.1.50 Receiving Payment through Third Party Vendors

Local governments should establish contractual agreements for all arrangements where a third party vendor is directed to accept payments on behalf of the local government. The contract should include details of the payment remittance process to support compliance with state law ([RCW 43.09.240](#)). Funds should be remitted through direct card settlement or EFT from the vendor to the local government's depository account.

The local government should adopt contracting policies that implement effective internal controls over funds collected through a third party vendor including safeguards to protect the funds from loss and contractual responsibilities for protecting credit card numbers and transactions.

Refer to the Center for Government Innovation, [Third Party Receipting](#) for additional guidance.

#### 3.6.1.60 Accounting and Reporting

For accounting purposes, the method or process of receipt and deposit should not affect when funds are considered received by the government. For example, receipt by a third party on behalf of a government or deposit in a transmittal account should be recognized the same as receipt and deposit at the government's main location.

See the BARS manual 3.6.11, [Suspense Funds](#) for additional guidance on use of suspense funds to temporarily hold unclassified transactions.



## County Auditor's Operation and Maintenance Fund (Recording Fees)

### 3.6 Revenues

#### 3.6.2 County Auditor's Operation and Maintenance Fund (Recording Fees)

This guidance applies only to counties.

3.6.2.10 **RCW 36.22.170** requires the county auditors to impose a surcharge of five dollars per instrument for each document recorded. This is in addition to any other charge authorized by law. One dollar of the surcharge should be deposited in the county's general (current expense) fund (account 3413600) and be used at the discretion of the county commissioner to promote historical preservation or historic programs, which may include preservation of historic documents. Fifty percent of remaining revenue generated by the surcharge should be deposited in an agency fund (account 3893000) and remitted to the state treasurer. The state treasurer will distribute such funds every July to the counties in accordance with the formula described in **RCW 36.22.190**. Funds distributed by the state should be deposited to the Auditor's O&M Fund (account 3360411). These resources should be used for ongoing preservation of historical documents of all county offices and departments. The other fifty percent of the surcharge should be deposited to the Auditor's Operation and Maintenance Fund (account 3413600) for ongoing preservation of historical documents of all county offices and departments.

3.6.2.20 Historical documents include both old and contemporary documents. Many contemporary county documents have importance to history and are part of a chronological record of events in the development of a particular county and the state of Washington.

3.6.2.30 **RCW 36.22.175(1)** requires a surcharge of one dollar per instrument for each document recorded, this is in addition to any other charge authorized by law. Revenue generated through this surcharge should be transmitted monthly to the state treasurer (account 3893000) for deposit in the archives and records management account. These funds should be used solely for providing records scheduling, security microfilm inspection and storage, archival preservation, cataloging, and indexing for local government records and digital data and access to those records and data through the regional branch archives of the division of archives and records management.

3.6.2.40 **RCW 36.22.175(3)** requires a surcharge of one dollar per instrument for every document recorded after January 1, 2002, this is in addition to any other charges authorized by law. Revenue generated through this surcharge should be transmitted monthly to the state treasurer (account 3893000) for deposit in the local government archives account to be used exclusively for the construction and improvement of a specialized regional facility.

3.6.2.45 **RCW 36.22.175(4)** requires a surcharge of one dollar per instrument for every document recorded. Revenue generated through this surcharge should be transmitted monthly to the state treasurer (account 3893000) for deposit in the local government archives account to be used exclusively for the competitive grant program and for the attorney general's consultation program and state archivist's training services..

3.6.2.50 **RCW 36.22.178** requires a surcharge of thirteen dollars per instrument for each document recorded this in addition to any other charge authorized by law. The county may retain up to five percent of this surcharge for the collection, administration, and local distribution of those funds. Of the remaining amount forty percent should be remitted monthly to the state treasurer (account 3893000). All of the remaining funds generated by this surcharge should be retained by the county and deposited into a special revenue fund (account 3412600) that must be used by the county and its cities and towns for eligible housing activities that serve very low-income households with incomes at or below fifty percent of the area median income. See the above statute for permissible use of the resources generated by this surcharge.

3.6.2.60 **RCW 36.22.179** requires a surcharge of sixty-two dollars for each document recorded. The county auditor should retain two percent for collection of the fee (account 3412100) and of the remainder sixty percent should be deposited into a special fund designated for the homeless housing program (account 3412700) and forty percent should be remitted to the state treasurer (account 3893000) for deposit in the home security fund.

3.6.2.70 **RCW 36.22.181** requires a surcharge of one dollar at the time of the recording of each deed of trust. The auditor may retain up to five percent of the funds collected to administer the collection. The remaining funds should be transmitted monthly to the state treasurer (account 3893000) and deposited into the mortgage lending fraud prosecution account. This surcharge expires June 30, 2011.

3.6.2.75 **RCW 36.22.240** requires a surcharge of two dollars and fifty cents for each document recorded. The surcharge [through June 30, 2024] should be deposited in the growth management planning and environmental review fund created in RCW [36.70A.490](#).

3.6.2.80 The transactions are summarized as follows:

<b>Amount</b>	<b>Account Number</b>	<b>Account Description</b>
\$__.	3412100	General (Current Expense) Fund or other designated fund–Auditor’s Filings and Recordings–percentage of surcharges retained by the county for collection, administration and distribution of these funds
\$1.00	3413600	General (Current Expense) Fund–Historical Document Preservation and Modernization Surcharge (RCW <a href="#">36.22.170(1)(a)</a> )
\$__.	3412600	Special Revenue Fund–Affordable Housing (RCW <a href="#">36.22.178</a> )
\$__.	3412700	Special Revenue Fund–Local Homeless Housing Program (RCW <a href="#">36.22.179</a> , Chapter <a href="#">43.185C</a> RCW)
\$2.00	3413600	Auditor’s O&M Fund–Historical Document Preservation and Modernization Surcharge (RCW <a href="#">36.22.170(1)(b)</a> )
\$__.	3360411	Auditor’s O&M Fund–Auditor’s Historical Document Preservation and Modernization Account. The state treasurer’s distribution of the surcharge to the county. (RCW <a href="#">36.22.170(2)(a)</a> )

\$2.00	3893000	Monthly remittance to the state treasurer-Centennial Document Preservation and Modernization Account (RCW <a href="#">36.22.170(2)(a)</a> )
\$3.00	3893000	Monthly remittance to the state treasurer-Local Governments Archives Account (RCW <a href="#">36.22.175(1)</a> , <a href="#">(3)</a> , <a href="#">(4)</a> )
\$__.	3893000	Monthly remittance to the state treasurer (RCW <a href="#">36.22.178</a> )-Affordable Housing (RCW <a href="#">43.185C.190</a> ) and Landlord Mitigation Program (RCW <a href="#">43.31.615</a> )
\$__.	3893000	Remittance to the state treasurer (RCW <a href="#">36.22.179</a> )-Home Security Fund
\$__.	3893000	Monthly remittance to the state treasurer-Mortgage Lending Fraud Prosecution Account (RCW <a href="#">36.22.181</a> )
\$2.50	3893000	Remittance to the state treasurer-Growth Management Planning and Environmental Fund (RCW <a href="#">36.22.240</a> )

3.6.2.90 When disbursements are made, the county auditor should prepare a voucher in the regular manner, supported by details, documenting the expenditures<sup>[1]</sup>. The auditor should place his/her certification on the face of the voucher and then draw a warrant against the Auditor's Operation and Maintenance Fund, in the same manner as is done for any other county fund.

**3.6.2.100 The County Auditor's Operation and Maintenance Fund is subject to budget requirements and must be appropriated.**

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**[1]** See [Original Supporting Documentation](#) for information regarding original supporting documentation.

## County Treasurer's Operation and Maintenance Fund

### 3.6 Revenues

#### 3.6.3 County Treasurer's Operation and Maintenance Fund

This guidance applies only to counties.

3.6.3.10 RCW [84.56.020](#)(10) requires that fees and costs applicable to the foreclosure, distraint and sale of real and personal property for delinquent taxes must be deposited into the Treasurer's Operation and Maintenance Fund. These moneys should be used by the county treasurer to defray the cost of further foreclosure, distraint and sale for delinquent taxes without regard to budget limitations.

3.6.3.20 Allowable expenditures include postage, filing fees, employee time, legal notices, title searches, etc. The following standard procedure should be used for all expenditures made from the Operation and Maintenance Fund:

When disbursements are made, the county treasurer should prepare a voucher in the regular manner, supported by detail documenting the expenditures **[1]** . The treasurer should place his/her certification on the face of the voucher prior to presenting it to the county auditor, who should then draw a warrant against the Treasurer's Operation and Maintenance Fund, in the same manner as is done for any other county fund.

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**[1]** See [Original Supporting Documentation](#) for information regarding original supporting documentation.

## Criminal Justice Funding

### 3.6 Revenues

#### 3.6.4 Criminal Justice Funding

This guidance applies only to cities and counties.

3.6.4.10 Criminal justice funding comes to the cities and counties in a number of formulas and requirements specified in statute. The following is a summary of the distributions including BARS coding:

- a. Cities and counties will receive quarterly distributions based on formulas specified in the statute (RCW [82.14.310](#) and RCW [82.14.320](#)). For counties, the formula is based on population, crime rate and felony criminal cases filed for trial. For cities, the formula is based primarily on a high crime rate. These distributions are coded 3360610 and 3360620 accordingly.
- b. A second distribution is applicable only to cities (RCW [82.14.330](#)) and it is based on the violent crime rate and population and is allocated quarterly. This distribution is coded 3360621.
- c. The other distributions depend on programs and services provided by cities. The distribution to cities that contract with another government for the majority of the city's enforcement services is coded 3360625

The remaining resources are distributed to cities which have or provide:

- Innovative law enforcement strategy;
- Programs to help at-risk children, or child abuse victims response programs;
- Programs to reduce the level of domestic violence or provide counseling for domestic violence victims.

The distribution should be coded 3360626.

3.6.4.20 The distributions described in paragraphs A and B are limited by the following wording in the statute:

Moneys distributed under this section shall be expended exclusively for criminal justice purpose and shall not be used to replace or supplant existing funding. Criminal justice purposes are defined as activities that substantially assist the criminal justice system, which may include circumstances where ancillary benefit to the civil justice system occurs, and includes domestic violence services such as those provided by domestic violence programs, community advocates, and legal advocates, as defined in RCW [70.123.020](#). Existing funding for purposes of this subsection is defined as calendar year 1989 actual operating expenditures for criminal justice purposes. Calendar year 1989 actual operating expenditures for criminal justice purposes exclude the following: Expenditures for extraordinary events not likely to reoccur, changes in contract provisions for criminal justice services, beyond the control of the local jurisdiction receiving the services, and major nonrecurring

capital expenditures.

The following guidance is in response to the restrictions imposed by the above quotation from the law.

### **Criminal Justice Purposes**

3.6.4.30 All of the moneys made available to local governments through this legislation are limited to funding of criminal justice purposes. Criminal justice purposes can be defined as activities relating to the enforcement and administration of the criminal law. The term *criminal justice purposes* indicates a broad definition which would encompass all costs incurred in connection with the administration and enforcement of criminal laws, including those systems for dealing with persons suspected of, accused of, charged with, or convicted of crimes and domestic violence services.

3.6.4.40 Cities and counties need to be aware that this funding is primarily for criminal justice. However, the statute does allow for benefit to the civil justice system. The benefit to the civil justice system should be a secondary benefit as a result of expenditures primarily for the criminal justice system.

### **Supplanting of Existing Funds**

3.6.4.50 Existing funding is defined as calendar year 1989 actual operating expenditures for criminal justice purposes excluding expenditures for:

1. Extraordinary events not likely to reoccur;
2. Changes in contract provisions for criminal justice services, beyond the control of the local jurisdiction receiving the services; and
3. Major nonrecurring capital expenditures.

3.6.4.60 The new state funding may be used for capital and other nonrecurring expenditures so long as the expenditure is for criminal justice purposes and is reasonable (e.g., the purchase of police cars). However, if a new roof is put on the county courthouse, only that portion that applies to criminal justice purposes would qualify (i.e., allocating the cost of the roof by square footage).

3.6.4.70 An entity would be supplanting by paying back interfund loans where the borrowed funds were used for criminal justice purposes. The repayment of these loans would be the equivalent of replacing existing criminal justice funding. The intent of the act is to ensure that the new funding results in increased financial resources devoted to criminal justice purposes.

3.6.4.80 As these moneys are expended, an entity must ensure that the criminal justice expenditures are at least equal to the base of *existing funds* plus selected revenues generated by the latest legislation. Once the base is established, the accounting system may be expanded by the following methods to ensure compliance with the non-supplanting provisions of the law:

1. An accounting system may employ budgetary and accounting code controls for the use of these funds or

2. A new fund may be established should the entity feel it is necessary.

3.6.4.90 It is the entity's responsibility to provide evidence for an audit that it did not supplant existing funding. Therefore, it is important to document the base year (1989 expenditures less major capital or nonrecurring items), and the actual criminal justice expenditures and restricted fund balance for the current year.

## **Diversion of County Road Property Tax**

### **3.6 Revenues**

#### **3.6.5 Diversion of County Road Property Tax**

This guidance applies only to counties.

3.6.5.10 RCW [36.33.220](#) authorizes the legislative authority of a county to divert any portion of the county road property taxes to provide services in the unincorporated area of the county. RCW [36.82.040](#) requires that so diverted taxes be placed in a separate and identifiable account within the county's general (current expense) fund.

3.6.5.20 To assist compliance with the provisions of these statutes, the following procedures are prescribed:

- The county road property taxes diverted to the general (current expense) fund should be presented in the budget of the general (current expense) fund as approved in the diversion resolution.
- Those counties which divert any portion of the county road taxes should develop accounting procedures that document that the diverted county road property taxes were used to provide services in the unincorporated area of the county.



## Electronic Funds Transfer - Receipts

### 3.6 Revenues

#### 3.6.6 Electronic Funds Transfer - Receipts

3.6.6.10 **Electronic funds transfer** (EFT) refers to the deposit to bank account by means of wire, direct deposit, ACH or other electronic means. In accordance with RCW [39.58.750](#) we prescribe the following accounting procedures for such transactions:

##### 3.6.6.20 Receiving money by EFT:

**a.** Prepare a treasurer's receipt upon receiving notice from the payer that the funds have been transferred to your bank account. Do not wait for the bank to notify you of receipt of the funds. However, you may want to contact your bank to confirm the expected funds have arrived.

Enter the following information on the receipt:

- Date of receipt.
- Name of person, company or agency transferring money into your account.
- Name and number of fund(s).
- BARS or other accounting system revenue account number.
- Notation that funds were received by the EFT.

Attach or otherwise retain payer's correspondence and any supporting documentation such as transaction lists. Document any changes made from the payer's correspondence if transactions are posted differently than reflected on the list (for example customer account number corrections).

**b.** A file must be maintained of those payers who have authorized to add moneys to your account electronically including the proceeds from third party vendors for credit card remittances.

## Impact Fees

### 3.6 Revenues

#### 3.6.7 Impact Fees

3.6.7.10 Impact fees are charges assessed by local governments against new development projects that attempt to recover the cost incurred by government in providing the public facilities required to serve the new development. Impact fees are only used to fund facilities, such as roads, schools, and parks, that are directly associated with the new development. They may be used to pay the proportionate share of the cost of public facilities that benefit the new development; however, impact fees cannot be used to correct existing deficiencies in public facilities. In Washington, impact fees are authorized under the *Growth Management Act* (GMA) (RCW [82.02.050](#), RCW [82.02.100](#)), as part of "voluntary agreements" under RCW [82.02.020](#), under the *Local Transportation Act* (RCW [39.92.040](#)), and as mitigation for impacts under the *State Environmental Policy Act* (SEPA) (Chapter [43.21C](#) RCW). GMA impact fees are only authorized for public streets and roads; publicly owned parks, open space, and recreation facilities; school facilities; and fire protection facilities in jurisdictions that are not part of a fire district.

3.6.7.20 The impact fees transactions are subject to the [GASB Statement 33, Accounting and Financial Reporting for Nonexchange Transactions](#).

#### Revenue Recognition

3.6.7.30 Revenues (*Capital Contributions*) should be recognized when the local government has an enforceable legal claim to the fee. Normally the enforceable claim occurs when the local government receives the fee payment. However, recognition will be delayed if the government has a refund policy requiring return of the fee to the developer, if they do not perform the project. When a developer has a right to a refund, because the project is not performed, the revenue should be classified as a deferred inflow until the project commences.

3.6.7.40 Revenue recognition should not be delayed because of the statutory requirement to return unspent funds after a time period. The statutory provision requiring unused impact fees to be returned to developers is a future transaction. This transaction should not be booked until the time period has been met. When the statutory time limit is up, the unspent impact fees should be recorded as liabilities.

3.6.7.50 Impact fees should not be accounted for in a custodial fund.

3.6.7.60 Local governments are required to use these contributions for specific purposes (purpose restrictions); therefore, the government should report the resulting net position as *restricted* until they are used.

#### Asset Recognition

3.6.7.70 The local government should recognize accounts receivable in the same period in which revenues are recognized.

## **Liquor Tax and Profits - Two Percent Substance Abuse Treatment Programs**

### **3.6 Revenues**

#### **3.6.8 Liquor Tax and Profits - Two Percent Substance Abuse Treatment Programs**

This guidance applies only to cities and counties.

3.6.8.10 RCW [71.24.555](#) provides that to be eligible for receiving a share of liquor taxes and profits, each city, town, or county must devote no less than two percent of its share of liquor taxes and profits to support programs for treatment of substance abuse and other drug addictions. Programs must be approved by the behavioral health organization and the secretary of the Department of Social and Health Services.

3.6.8.20 A city or county that does not have its own facilities or programs for the treatment and rehabilitation of substance abusers, may share the use of another city or county facility or program as long as it contributes no less than two percent of its share of liquor taxes and profits to support these facilities or programs (RCW [71.24.555](#)).

3.6.8.30 All liquor taxes and liquor board profits received from the state should be accounted for in the city's or county's general (current expense) or special revenue fund. This money should be coded 3360694 for liquor excise taxes and 3360695 for liquor control board profits.

3.6.8.40 Distribution of the money should be handled in a manner legally authorized by the statute. Expenditures related to substance abuse treatments should be coded to account 566 whether the expenditures are in support of the city's or county's own facilities/programs or contributions to others.

3.6.8.50 The two percent portion and any additional amounts expended for the substance abuse treatment should be budgeted in accordance with the provisions of Chapter [35.32A](#) RCW, Chapter [35.33](#) RCW and Chapter [36.40](#) RCW.

## **Prosecuting Attorneys' Salaries**

### **3.8 Revenues**

#### **3.8.12 Prosecuting Attorneys' Salaries**

This guidance applies only to counties.

3.8.12.10 RCW [36.17.020](#) provides that: *The State of Washington shall contribute an amount equal to one-half of the salary of a superior court judge towards the salary of the elected prosecuting attorney.* This money should be coded to account 3340011.

3.8.12.20 The annual salary of the superior court judges is established by the Washington Citizens' Commission on Salaries for Elected Officials (RCW [2.08.092](#)).

## Revenue Accruals in Governmental Funds

### 3.6 Revenues

#### 3.6.9 Revenue Accruals in Governmental Funds

3.6.9.10 Generally accepted accounting principles require that governmental funds recognize revenues in the accounting period in which they become susceptible to accrual - that is, when they become both **measurable** and **available** to finance the expenditures of the fiscal period.

3.6.9.20 Measurable refers to the ability to quantify in monetary terms the amount of revenues.

3.6.9.30 Financial resources are available to the extent they are collectible within the current period or soon enough thereafter to be used to pay liability of the current period. Governments can choose the length of the availability period. However, the availability period for the property tax revenue recognition is limited to no more than 60 days **[1]**. It is recommended that governments attempt to use a single availability period.

3.6.9.40 Amounts that are available, but do not meet the criteria for revenue recognition, should be reported as deferred inflows.

3.6.9.50 Remember that the accrual requirements do not apply to immaterial amounts. Also, the criteria for asset and revenue recognition are not always the same.

3.6.9.60 If a recipient government is not able to obtain timely information to estimate accrual amounts necessary to record a nonexchange transaction, it may use any method (including, but not limited to cash received) that provides a reasonable estimate.

3.6.9.70 The general standards for recognizing revenues related to nonexchange transactions are established in the [GASB Statement 33, Accounting and Financial Reporting for Nonexchange Transactions](#) and the [Statement 36, Recipient Reporting for Certain Shared Nonexchange Revenues](#).

3.6.9.80 The provisions of the Statement 33 for the full-accrual basis revenue recognition in governmental funds apply only to their government-wide presentation.

Revenue Type	Description/Class	BARS Code	Revenue Recognition
EXCHANGE and EXCHANGE-LIKE Transactions	It occurs when both parties exchange equal or similar, though not quite equal values.	320, 340, 348, 361, 362	When measurable and available.

NONEX CHANG E Transac tions	It occurs when a government gives (or receives) something of value to (or from) another party without directly receiving (or giving) equal value in exchange. There are four classes of nonexchange transactions:		
	Derived tax revenue (e.g., sales tax, motor fuel tax, hotel/motel tax, and similar taxes on earnings or consumption)	313, 314, 316	Period when underlying exchange has occurred and resources are available. (Advanced receipts should be reported as unearned revenues.)
	Imposed nonexchange transactions (e.g., property taxes, special assessments, most fines and forfeitures, etc.)	311, 312, 350, 368	Period when resources are required to be used or first period that use is permitted. For property taxes, the period for which they are levied. Resources should also meet the availability criteria.
	Government-mandated nonexchange transactions (e.g., federal/state mandates on local governments) Voluntary nonexchange transactions (e.g., certain grants, entitlements, most donations, etc.)	331, 332, 333, 334, 335, 336, 337, 367	Period when all eligibility <b>[2]</b> requirements have been met and resources are available. (Advance receipts or payments for use in the following period should be recorded as deferred revenues or advances.)

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**[1]** NCGA Interpretation 3

**[2]** The [GASB Statement 33](#) specifies four kinds of eligibility requirements: (1) the recipient has the characteristics specified by the provider, (2) time requirements have been met, (3) the recipient has incurred allowable costs under the provider's program, which specifies that resources will be provided only on a reimbursement or "expenditure-driven" basis; and (4) for voluntary nonexchange transactions only, the recipient has complied with any contingencies stipulated by the provider.

## Suspense Funds

### 3.6 Revenues

#### 3.6.11 Suspense Funds

##### 3.6.11.10 Purpose

The purpose of a suspense fund is to temporarily hold unclassified transactions while a decision is being made as to their classification. This allows for immediate recording of transactions in the general ledger and accounting control over unclassified transactions.

While it is possible for suspense funds to be used for a variety of transaction types, local governments would be expected use suspense funds exclusively for receipts. This presumption is reflected in the following guidance.

##### 3.6.11.20 Accounting

When receipts are temporarily recorded to the suspense fund, the entry should be to increase cash and 3899000, *Other Custodial Activities*. When the correct classification is determined, the original entry should be reversed and the correct entry made. An expenditure or transfer should never be recorded to move suspended funds.

Subsequent discovery of the correct allocation of funds should be corrected back to the date of original receipt, if possible.

##### 3.6.11.30 Controls

See the BARS manual 3.1.3, [Internal Control](#) for general guidance on internal controls. The following are minimum expected controls for suspense funds:

- Suspense fund cash should be included in the reconciliation of bank accounts to general ledger.
- Documentation for each suspended transaction should be retained in a tickler file.
- Suspended receipts should be resolved in a timely manner.
- At all times, the amount of cash and revenue recorded in a suspense fund should match the documentation of unresolved suspended receipts in the tickler file. At all times, all transactions recorded to the fund (original and reversing) should be traceable to documentation of suspended receipts and correcting entries. The suspense fund should be periodically reconciled to this file by an independent person to ensure validity of transactions and the current balance, if any.

##### 3.6.11.40 Reporting



Due to the nature of a suspense fund, it would not meet the definition of a custodial fund. Therefore, suspense funds should not be reported in the financial statements.

For financial reporting purposes, it is expected that all suspended receipts at fiscal year-end would be resolved - and corrections reflected in the accounting records - by the time the annual report is submitted. If not all suspended receipts as of fiscal year end have been resolved as of the date of the financial report, the unresolved receipts should be rolled up into the general fund for purposes of financial reporting.

## Utility Tax

### 3.6 Revenues

#### 3.6.13 Utility Tax

This guidance applies only to cities.

3.6.13.10 Tax authorized by RCW [35.22.195](#), RCW [35.23.440\(8\)](#), RCW [35.27.370\(9\)](#) and RCW [35A.82.020](#) are often referred to as “utility tax”. However, the tax is just a standard business and occupation (B&O) tax levied by the general fund on the city’s utilities. The tax is not substantially different from the B&O tax charged by the general fund to other businesses in the city.

This is a tax on the utility, not a tax on the customers. If the utility wants to recoup the tax (and there is no such obligation), it can do so by adjusting the customers’ rate for services. Also, there is no requirement to single out this rate component on the utility bill.

An increase in customers’ bills does not change the nature of the tax – it remains a B&O tax on utilities and not on customers.

3.6.13.20 For the tax limits refer to RCW [35.21.870](#). The utility tax does not have any statutory purpose or use restrictions, but governments may choose to impose restrictions on the revenues as part of the enabling ordinance.

#### 3.6.13.30 Accounting and Reporting

The B&O tax should be accounted for as a revenue in the general fund (3164000) and expenditure in the utility fund (53P0040).

If the utility passes the tax on to its customers, the additional charges should be recognized as revenue (343P000) **not** in the general fund but directly in the utility fund. The utility’s payment of its B&O tax to the general fund is a separate transaction that should be reflected as an expenditure of the utility fund (53P0040) and revenue of the general fund (3164000). Since the tax is a revenue source in the general fund and expenditure in the utility fund, it is inappropriate to account for this transaction as transfer-in or transfer-out.

## Working Advances from the Department of Social and Health Services (DSHS)

### 3.6 Revenues

#### 3.6.10 Working Advances from the Department of Social and Health Services (DSHS)

This guidance applies only to counties.

3.6.10.10 The DSHS provides working advances to local governments in conjunction with aging, mental health, developmental disabilities and alcohol and drug rehabilitation programs. They are provided in order to alleviate the cash flow problems associated with the time lag between your expenditures and reimbursements from the DSHS.

3.6.10.20 The working advances should be treated as fund debt rather than revenue.

3.6.10.30 In full accrual accounting, the receipt of a working advance should be recorded as follows:

		<b>DR</b>	<b>CR</b>
Cash		\$XXX	
	Long-Term Payable - Working Advance		\$XXX

3.6.10.35 In modified accrual accounting, the receipt of a working advance should be recorded as follows:

		<b>DR</b>	<b>CR</b>
Cash		\$XXX	
	Other Financing Source - Intergovernmental Loan		\$XXX

# Grants

## Grants - Accounting

### 3.7 Grants

#### 3.7.1 Grants - Accounting

3.7.1.10 **CAUTION: As governments are spending down federal awards issued prior to December 26, 2014, this section covers both the requirements of OMB Circulars (A-87 Cost Principles and A-102 Administrative Requirements) and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards 2 CFR 200 (Uniform Guidance), which supersedes the OMB Circulars for awards issued on or after December 26, 2014. Click here for the new [Uniform Guidance](#).**

The requirements described below apply to all local governments who expend federal funds or pass funds through federal funds to subrecipients. Federal assistance can be provided to state and local governments in many forms including *project grants, block grants, formula grants, cost reimbursement contracts, loans, loan guarantees, insurance contracts, real property, and personal property*. The following procedures apply to programs funded with state and interlocal monies as well as federal funds. This section does not apply to most entitlements or shared revenues, which are treated essentially as local revenues.

3.7.1.20 Excerpts from the Uniform Guidance, 2 CFR 200, and Office of Management and Budget (OMB) Circular A-133, Circular A-87, and Circular A-102 (the Common Rule) are provided in this section. Please note that there are many additional federal laws and regulations that may apply to your grants and loans. Copies of these circulars and other federal documents can be obtained from the [OMB website](#) (the link to Uniform Guidance is above).

#### **American Recovery and Reinvestment Act (ARRA) of 2009**

3.7.1.30 If municipalities are still spending down grants received as part of ARRA, they are still required to have an accounting system that enables them to separately identify how they spent the ARRA funding (2 CFR 176.210).

#### **The Uniform Guidance Administrative Requirements**

3.7.1.40 Subpart C - Pre-Federal Award Requirements and Contents of Federal Awards and Subpart D - Post-Federal Award Requirements of the Uniform Guidance, 2 CFR 200, (§§.200-.213 and §§.300-.345, respectively) contain the Administrative Requirements for grants and cooperative agreements to state and local governments and are effective for new awards and additional funding increments to existing awards issued by the federal government after December 26, 2014. The financial management systems of local governments and subgrantees must meet the following standards of 2 CFR §200.302:

“(b) The financial management system of each non-Federal entity must provide for the following (see also §§200.333 Retention requirements for records, 200.334 Requests for transfer of records, 200.335 Methods for collection, transmission and storage of information, 200.336 Access to records, and 200.337 Restrictions on public access to records):

1) Identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal award identification must include, as applicable, the CFDA title and number, Federal award identification number and year, name of the Federal agency, and name of the pass-through entity, if any.

(2) Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in §§200.327 Financial reporting and 200.328 Monitoring and reporting program performance....

(3) Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.

(4) Effective control over, and accountability for, all funds, property, and other assets. The non-Federal entity must adequately safeguard all assets and assure that they are used solely for authorized purposes. See §200.303 Internal controls.

(5) Comparison of expenditures with budget amounts for each Federal award.

(6) Written procedures to implement the requirements of §200.305 Payment.

(7) Written procedures for determining the allowability of costs in accordance with Subpart E - Cost Principles of this Part and the terms and conditions of the Federal award.”

### **The Common Rule Administrative Requirements**

3.7.1.41 The OMB Circular A-102 Common Rule sets forth uniform administrative requirements for grants and cooperative agreements to state and local governments. These rules apply to awards issued by the federal government before December 26, 2014. The financial management systems of local governments and subgrantees must meet the following standards:

1. Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

2. Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

3. Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

4. Budget control. Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible.

5. Allowable cost. Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.

6. Source documentation. Accounting records must be supported by such source documentation as canceled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc. See [Original Supporting Documentation](#) for information regarding original supporting documentation.

7. Cash management. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.

### **Uniform Guidance Cost Principles**

3.7.1.50 For new awards and additional funding increments to existing awards issued by the federal government on or after December 26, 2014, expenditures of federal funds and costs claimed for reimbursement or used for matching must be determined in accordance with Subpart E - Cost Principles of the Uniform Guidance: 2 CFR 200 (§§.400-.475).

### **OMB Circular A-87 Cost Principals**

3.7.1.51 Expenditures of federal funds and costs claimed for reimbursement or used for matching must be determined in accordance with the OMB Circular A-87, *Cost Principles for State and Local Governments*. This circular provides criteria for determining whether costs are necessary, reasonable, and allocable. It also lists specific types of costs and expenditures that are allowable and unallowable.

## Uniform Guidance Audit Requirements

3.7.1.60 Subpart F – Audit Requirements (§§.500-.521) set forth the uniform requirements for audits of federal financial assistance provided to state and local governments and is effective based upon the entity fiscal year and **not** the date of the award. Uniform Guidance audit requirements are effective for audits of fiscal years beginning on or after December 26, 2014.

A non-Federal entity that expends \$750,000 or more during the non-Federal entity's fiscal year in Federal awards must have a single or program-specific audit conducted for that year in accordance with the provisions of this part.

3.7.1.70 Uniform Guidance outlines specific auditee responsibilities. In short, the auditee must perform the following:

1. Identify, in the accounting records, all federal awards received and expended (§200.302);
2. Establish and maintain internal control over federal programs that provides reasonable assurance that the grantee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (§200.303);
3. Comply with laws and regulations and the provisions of contracts or grant agreements related to each of its federal programs (§§200.300 and .303);
4. Prepare appropriate financial statements, including the Schedule of Expenditures of Federal Awards (SEFA aka Schedule 16) (§§200.508 and .510). See SEFA requirements [here](#).
5. Ensure audits are performed when required (§200.508);
6. Promptly follow up and take corrective action on audit findings, including preparation of a Summary Schedule of Prior Audit Findings and a Corrective Action Plan §200.511); and
7. Ensure a reporting package and a Data Collection Form are submitted to the Federal Audit Clearinghouse by the applicable deadline (§200.512).

3.7.1.80 Governments that expend less than \$750,000 in a year in federal awards are exempt from federal audit requirements for that year, but records must be available for review or audit by appropriate officials of the federal agency, pass-through entity, and General Accounting Office (GAO).

3.7.1.90 The Single Audit Act provides that an audit made in accordance with the Uniform Guidance should be in lieu of any financial or financial compliance audit required under individual federal assistance programs. To the extent that a single audit provides federal agencies with information and assurances they need to carry out their overall responsibilities, they should rely upon and use such information. However, a federal agency should make additional audits which are necessary to carry out its responsibilities under federal law and regulation. Any additional federal audit effort should be planned and carried out in such a way as to avoid duplication.

3.7.1.100 To satisfy the requirements of the Single Audit Act and generally accepted accounting principles, the following accounting for grants is prescribed.

#### 1. Use of Separate Grant Funds

Grants may be accounted for in the same funds as other operations of a municipality or in one or more separate "grant funds," depending upon grant terms. The Governmental Accounting Standards Board (GASB) recommends that governments establish and maintain the minimum number of funds consistent with legal specifications and operational requirements. Grant transactions coded within the same fund as other operations may be distinguished by using the BARS local option codes.

#### 2. Fund Types

Grants must be accounted for in the type of fund appropriate for the activities being financed. If a grant is to be used for general governmental purposes, it should be accounted for in the general (current expense) or a special revenue fund. If a grant is received for the payment of principal and/or interest on general long-term debt, it should be accounted for in a debt service fund. If a grant is received to support operations of, or acquire capital assets for, a proprietary fund, the grant should be accounted for in a proprietary fund. Other capital grants should be accounted for in capital projects funds. See separate discussion in [Pass-Through Grants](#).

#### 3. Project Coding

At the inception of a grant (award notification), one or more project codes should be assigned locally to identify the particular grant. This coding must be incorporated into the basic coding structure the municipality uses to identify all its transactions. Any available field or fields may be used, so long as the results do not interfere with the prescribed seven-digit BARS code.

The use of multiple codes may be necessary when there is more than one source of funds for a particular grant. For example, when some expenditures must be charged to particular revenue sources or are not allowed under some grantors' terms, separate budgets for such sources must be established. In addition, it may be desirable or necessary to account for the local share of costs (*match*) or program income in separate projects. The value of separate projects is that they immediately segregate budgets, revenues, expenditures, cash accounts, receivables, and payables for each grant and for the related non-grant resources used to accomplish the project or operate the program.

#### 4. Local Funding of Grant Projects

Within this project or set of projects, the municipality should account not only for grant resources and expenditures but also for the municipality's own contributions to the project or program and for related program income. This is necessary to ensure uniform accounting for the entire project or program, not merely that portion supported by grant money.

#### 5. Grant (Project) Budgets



As soon as the terms of the grant award are known, the grant budget entries are to be made. If the exact terms of a grant agreement are not known when expenditures begin to be incurred, approximate budgets must be entered. These entries are not the municipality's own appropriation entries, which are still required.

To distinguish the grant budget from the municipality's own appropriated budget, municipalities may use the separate budgetary control accounts 296.10 *Grants Authorized and Continuing Grant Appropriation*, 296.20 and the separate nominal control accounts, 297.10 *Life-To-Date Resources*, and 297.20 *Life-To-Date Expenditures/Uses*. This results in tracking two budgets for the same expenditures because the grant fiscal period often will not coincide with the municipality's fiscal period. In these cases, continuing appropriations will be necessary.

The *Life-To-Date Resources* and *Life-To-Date Expenditures/Uses* accounts are used to keep track of the resources/uses for the grant projects from inception of the grant through the current date. Comparison of these accounts to the 296 accounts (see above) will yield budget analysis on a project basis as opposed to current year transactions.

If a separate grant fund is used, the municipality's own legislated appropriation should be limited to the fund total, and the detail budget should be the terms contained in the grant award and related agreements. If the grant is accounted for within a fund that accounts for other operations of the municipality, either the grant terms or the municipal appropriation may be used for the detail budget. Using the municipal appropriation for the detail budget has the disadvantage that, although grant revenues and expenditures will be identified as they are incurred, they will not be compared to the detailed grant budget and therefore the municipality may have to absorb some grant related costs that turn out not to dovetail with the grant budget restrictions.

## 6. Grant Schedules

A set of grant schedules is prepared as shown in the [Expenditures of Federal Awards \(Schedule 16\)](#). These schedules meet federal requirements for the Single Audit. After these schedules are complete, the life-to-date control accounts are closed to allow the preparation of a balance sheet. The life-to-date control accounts are reopened as the first journal entry of the succeeding fiscal year.

## 7. Noncash Awards

The value of noncash awards (e.g., food stamps, food commodities, supplies and equipment, etc.) should be accounted for and reported on the Schedule of Expenditures of Federal Awards (Schedule 16) as the fair market value of non-cash awards received during the year, as determined by the awarding agency. The notes to the schedule should disclose the nature of the amounts reported.

## Pass-Through Grants

### 3.7 Grants

#### 3.7.2 Pass-Through Grants

3.7.2.10 The Governmental Accounting Standards Board (GASB) [Statement 24, Accounting and Financial Reporting for Certain Grants and Other Financial Assistance](#), defines pass-through grants as those grants and other financial assistance received by a governmental entity (recipient government) to transfer to or spend on behalf of a secondary recipient. All pass-through grants received by a governmental entity should be reported in its financial statements. To determine the proper accounting for pass-through grants, the recipient government has to evaluate its administrative and direct financial involvement.

3.7.2.20 Administrative involvement may include:

- (a) Monitoring secondary recipients for compliance with program-specific requirements,
- (b) Determining eligible secondary recipients or projects, even if using grantor-established criteria, or
- (c) Having the ability to exercise discretion in how the funds are allocated.

3.7.2.30 Direct financial involvement may include:

- (a) Recipient government financing some direct program costs because of a grantor-imposed matching requirement, or
- (b) Recipient government liability for disallowed costs.

3.7.2.40 If a recipient government has administrative involvement or direct financial involvement in a pass-through grant, its responsibility in relation to the resources is more than custodial.

3.7.2.50 The recipient government essentially exercises operational responsibility or discretion over whether the grant will be awarded.

3.7.2.60 The National Council on Governmental Accounting (NCGA) Statement 1 states that custodial funds are purely custodial. In those cases in which a recipient government serves only as a cash conduit, the grant should be reported in a custodial fund. Pass-through grants with administrative or direct financial involvement should be recognized as revenue and expenditures or expenses in governmental, proprietary, or fiduciary funds of the recipient government.

3.7.2.70 The [GASB Statement 24](#) does not require that a recipient government's payment of administrative costs (indirect financial involvement) be separately evaluated in determining the reporting of pass-through grants. If a recipient government serves only as a cash conduit, it may incur some incidental administrative costs. If a recipient government's administrative costs are more

than incidental that would be the result of administrative involvement.

## Expenditures

### Confidential Funds (Drug Buy Money, Investigative Funds)

#### 3.8 Expenditures

##### 3.8.9 Confidential Funds (Drug Buy Money, Investigative Funds)

This guidance applies only to cities and counties.

3.8.9.10 Confidential funds are those funds allocated to the following three types of law enforcement undercover operations:

**1.** Confidential investigative expenses are for the purchase of services and would include travel or transportation of an undercover officer or an informant. The lease of an apartment, business front, luxury type automobiles, a boat, aircraft or similar effects to establish the appearance of affluence, credibility and a general atmosphere conducive to the undercover role would also be in this category. Meals, beverages, entertainment and similar expenses for undercover purposes, within reasonable limits, would also be included.

**2.** Confidential funds for the purchase of evidence would include the purchase of evidence and/or contraband such as drugs, firearms, stolen property, etc., required to determine the existence of a crime or to establish the identity of a participant in a crime.

**3.** Confidential funds for the purchase of specific information from informants.

3.8.9.20 Confidential expenditures are subject to appropriation by the municipality's governing body. The governing body must assure that the controls over disbursements are adequate to safeguard against misuse of such funds. When the funds are replenished, legislative approval should be based on a finding that the expenditures were necessary and reasonable for proper and efficient administration of the program under which they were used.

3.8.9.30 The funds authorized should be established in an imprest fund. [Imprest, Petty Cash and Change Funds](#) prescribes the minimum requirements for the establishment and operation of an imprest fund. In addition to all those requirements the following apply:

**1.** The supervisor of the unit to which the imprest fund is assigned must authorize all advances of moneys to agents or officers for the purchase of information. Such authorization must specify the information to be received, the amount of expenditures, and assumed name of informer.

**2.** The investigation unit must maintain confidential files of the true names, assumed names, and signature of all informers to whom payments have been made. To the extent practicable pictures and/or fingerprints of the informer payee should also be maintained.

**3.** The custodian should receive from the agency or officer authorized to make a confidential

payment, a receipt for cash advanced to him/her for such purposes.

4. The agent or officer should receive from the informer a receipt of the following nature:

RECEIPT FROM INFORMER PAYEE

Receipt

For and in consideration of the sale and delivery to the (state/county/city) of  
\_\_\_\_\_ of information or evidence identified as follows:  
\_\_\_\_\_  
\_\_\_\_\_

I hereby acknowledge receipt of \$ \_\_\_\_\_ paid to me by (state/county/city) of  
\_\_\_\_\_.

Date: \_\_\_\_\_, 20\_\_\_\_ Signature: \_\_\_\_\_

\_\_\_\_\_  
Witness (if any)\*

\* The witness requirement is not mandatory in all instances, depending on the nature of the meeting and exchange of funds. A requirement should be in effect that on 25 percent of the contacts, when payments are made, second agent appear as the witness to the transaction. In addition, on ten percent of the meetings the agent or officer in charge should be present to verify the payment to the informer.

5. The signed receipt from the informer payee with a memorandum detailing the information received must be forwarded to the agent or officer in charge. The agency or officer in charge must compare the signature on the receipt with the confidential file of assumed name signatures. He/she must also evaluate the information received in relation to the expense incurred, and add his/her evaluation remarks to the report of the agent or officer who made the expenditure. A certification of payment to the custodian should serve as support for the expenditure from the imprest fund. The certification should be witnessed by the agent or officer in charge on the basis of the report and informer payee's receipt.

6. Each agent or officer in charge must prepare a quarterly report showing status and reconciliation of the imprest fund and itemizing each payment, name used by informer payee, information received and use to which information was put. This report must be made part of the files and reviewed quarterly by the head of the municipality's law enforcement agency.

## Electronic Funds Transfer - Disbursement

### 3.8 Expenditures

#### 3.8.11 Electronic Funds Transfer - Disbursement

3.8.11.10 **Electronicfundstransfer**(EFT) refers to the disbursement from a bank account by means of wire, direct deposit, ACH or other electronic means. In accordance with RCW [39.58.750](#) we prescribe the following accounting procedures for such transactions.

3.8.11.20 Disbursing money by the EFT:

a. Prepare a record which shows:

Chronological number of the EFT payment.

- Time and date of disbursement.
- Payee - name, address and account number.
- Amount of disbursement.
- Purpose of disbursement.
- BARS or other accounting system expenditure/expense account number.
- Name and number of fund(s).
- Disbursing bank's unique transaction identification number, if available.
- Receiving bank or financial institution's identification number.

b. A file must be maintained of authorizations by payees who have thereby agreed to have moneys added to their accounts electronically.

c. The treasurer should notify the disbursing bank that access to files, records and documentation of all EFT transactions involving the treasurer should be provided to the State Auditor when required for the conduct of the statutory post audit.

3.8.11.30 Policies should be adopted to establish effective internal control to protect EFT transactions from internal and external threats. These policies should include:

- Implementation of bank offered security measures to prevent unauthorized individuals from initiating or modifying a transfer. Each user initiating or approving bank transactions must have a separate banking user id.
- Define the process for creating, securing, sending and authenticating direct deposit transmittal files to prevent unauthorized modification or submission.
- Adoption and implementation of computer standards, policies and procedures to protect the computers and computing processes used for EFTs from computer malware.
- Policies and procedures should be in place to validate these authorization to protect resources being transferred electronically.

## Employee Travel

### 3.8 Expenditures

#### 3.8.2 Employee Travel

3.8.2.10 For the purpose of the BARS, travel expense includes amounts paid for use of personal automobiles, other transportation, and actual expenses or reimbursement in lieu of actual expenses for meals, lodging, and related items.

3.8.2.20 The legislative body of each municipality must pass an ordinance or resolution to establish rules and regulations for the reimbursement of travel expense. There should be rules to cover all municipal officials and employees. The ordinance or resolution should discuss the municipal policy on tipping, charging expenses to the municipality, and it should prohibit reimbursement for personal expenses and entertainment.

3.8.2.30 If any municipal corporation wishes to issue credit cards for travel related expenditures, the legislative body must pass an ordinance or resolution to establish rules and regulations that satisfy provisions of Chapter [42.24](#) RCW, including:

1. Submission of a fully itemized travel expense voucher by the employee or officer;
2. Settlement by the officer or employee within 30 days of the billing date; and,
3. The establishment of a lien against salary for any disallowed charges.

3.8.2.40 Claims for reimbursement of travel expenses must contain a signed certification that includes the following language, *I hereby certify under penalty of perjury that this is a true and correct claim for necessary expenses incurred by me and that no payment has been received by me on account thereof.*

3.8.2.50 In addition, if an officer or employee is filing a claim on behalf of others, he/she must prepare a detailed account that includes:

1. Names of the others who traveled, partook of meals, or otherwise incurred expenses.
2. Whether they were municipal employees and, if not, who they were and what connection they had with municipal business. This should not be construed to permit promotional hosting.
3. Who provided the lodging, meals or other services in question, dates and times.
4. A detailed breakdown of amounts.
5. Some statement sufficiently explicit to show what municipal business was being carried out when the expenses were incurred.

3.8.2.60 If a municipality chooses the option of using monthly reimbursements for use of personal automobiles for official business, the following procedures apply.

1. The monthly rate schedule established should be limited to officers and/or employees who actually use their personal automobiles for travel on a regular basis. It is the responsibility of the municipality to assure that each traveler is on official business.
2. The rate must be based on actual costs.
3. A periodic review must be performed to determine whether or not the rate continues to reflect actual costs.
4. A record is needed of the governing body's determination.

3.8.2.70 If the above procedures are not followed, the "monthly reimbursement for use of personal automobiles" may be treated as additional compensation. According to the Internal Revenue Service, municipalities could be assessed the withholding tax of the employees if the amounts advanced/reimbursed for travel were not for expenses incurred or reasonably expected to be incurred, unless these amounts are reported as taxable wages on the W-2.

3.8.2.80 If a municipality chooses to establish an *advance travel expense account* (imprest account), pursuant to RCW [42.24.120](#), the following procedures apply:

1. The imprest amount must be established and maintained in accordance with the procedures prescribed for petty cash (e.g., amount must be established by ordinance or resolution).
2. Upon receipt of the moneys, the custodian will open a checking account in a local bank in the name of the governmental unit entitled *Advance Travel Expense Account - John Doe, Custodian*. Moneys received from the following sources will be deposited to the account:

From the treasurer or other disbursing officer, the total amount originally establishing the account or subsequently added; from officers and employees, refunds of any unexpended advances; and from the warrant-issuing officer, amounts that reimburse the custodian for travel expenses allowed in the settlement of employee advances.

3. The *advance travel expense account* must be used solely for travel advances, not direct payments to vendors. In other words, moneys may be advanced to an individual who is going on travel status for travel-related expenses that he/she will pay out of his/her own pocket. It must not be used for personal loans, registration fees, reimbursements to employees or officers for travel already incurred, etc.
4. A check register will be maintained in which will be recorded all transactions of the account, including deposits, disbursements and bank service charges. A reconciliation should be made with the bank statement at the end of each month. When possible, the reconciliation should be made by



someone other than the custodian. The balance remaining in the checking account as of a given date, together with any outstanding advances and travel expense claims on hand but not yet reimbursed, should always equal the amount established by the governing body for the account.

5. Employee advances for travel expenses should be made by the issuance of checks drawn on the special bank account, payable to the applicant. Approved requests should be retained in the files of the custodian to support such advances until final settlement is made and claim for reimbursement has been submitted. Requests for such advances should be reasonable estimates of the applicants' travel expense requirements and should contain as a minimum the following information:

- Date of request
- Name of applicant
- Destination
- Purpose of travel
- Anticipated departure and return dates
- Amount requested
- Signature of applicant
- Official approval of trip
- Check number, amount and date (to be provided by the custodian when the advance is made)

6. Settlement of advances should be made on or before the 15th day following the close of the travel period by filing with the custodian an expense voucher as required by RCW [42.24.090](#). The custodian should verify the amount shown on such form as having been advanced to the employee. In the event the traveler's actual expense is less than the amount of the advance received, his/her expense voucher should be accompanied by the unexpended portion of the advance. The expense voucher and original request for the advance will then be used to support the custodian's claim for a warrant replenishing the account for travel expenses reported. Expense vouchers containing expenses in excess of the amount advanced will be submitted in duplicate to the custodian at the time of final settlement. The original copy of the expense claim and the traveler's request for an advance will then be used to support the custodian's claim for a warrant replenishing the account. The other copy of the expense claim will be submitted to the warrant issuing officer for reimbursement of the excess to the traveler. Claims for reimbursement to the account should be submitted by the custodian periodically as needed and at the end of the fiscal year in order that all expenses incurred will be charged against the appropriations for the period then ending.

7. Any default in accounting for or repaying an advance should render the full amount which is unpaid immediately due and payable with interest at the rate of 10 percent per annum from the date of default until repaid. To protect against any losses on advances, the governing body should have a prior lien against and a right to withhold any and all funds payable or to become payable to such officer or employee to whom such advance has been given, up to the amount of the advance and an annual interest rate of 10 percent until repayment or justification is made (RCW [42.24.140](#)). No advance of any kind may be made to any officer or employee at any time when he/she is delinquent in accounting for or repaying a prior advance.

## **Imprest, Petty Cash and Other Revolving Funds**

### **3.8 Expenditures**

#### **3.8.8 Imprest, Petty Cash and Other Revolving Funds**

##### **3.8.8.10 Purpose**

Guidance in this section applies to petty cash, imprest accounts, working funds, advance travel, stamp funds, change funds, or any other revolving funds set aside for facilitating minor disbursements, making change, and similar uses. When revolving funds are disbursed, they are restored to the authorized balance by a warrant drawn and charged to the applicable fund.

##### **3.8.8.11 Budgeting**

Imprest, petty cash and other revolving funds are not budgeted because they represent working capital for expenditures that are properly budgeted in other funds.

##### **3.8.8.15 Accounting**

The authorized balance of imprest, petty cash and other revolving funds should be reported as cash in the general ledger in whichever fund expenditures are expected to be paid from. Expenditures should be recorded when such funds are replenished to their authorized balance.

##### **3.8.8.20 Controls**

See the BARS manual 3.1.3, [Internal Control](#) for general guidance on internal controls. The following are minimum expected controls for revolving funds:

1. The governing body must authorize each revolving fund in the manner that local legislation is officially enacted, i.e., resolution or ordinance. This applies also to all subsequent increases or decreases in the imprest amount.
2. The governing body or its delegate must appoint one custodian of each petty cash account who should be independent of invoice processing, check signing, general accounting and cash receipts functions. As part of the appointment, the custodian should render a receipt for the imprest amount to the treasurer, clerk-treasurer or auditor from whom he/she receives it. When it is not practical to hire additional personnel or to reallocate these duties among existing personnel, the governing body must establish some mechanism of review that accomplishes the objectives of the segregation of duties. For example, periodic monitoring of cash receipts and/or independent performance of the reconciliation may be adequate compensating controls for when complete segregation of duties is not possible.
3. The authorized balance should not exceed one month's salary or the surety bond covering the custodian.
4. On at least monthly basis, the fund should be reconciled to the authorized balance and to the actual balance per bank statements or a count of cash on hand. If this reconciliation is done by

the custodian, it should be checked or re-performed periodically by someone other than the custodian. It is recommended that independent checks not be scheduled with the custodian but be done on a surprise basis.

5. For funds on hand (such as petty cash or change funds), the custodian must ensure cash is kept in a secured place, such as a locked drawer or box.
6. Whenever disbursements are made, the fund must be replenished at least monthly by warrant or check. The replenishment should be subject to the same review and approval as processed invoices. The replenishment must be by voucher with the appropriate receipts attached. The receipts should show the date, recipient, purpose, and amount of each cash disbursement. These receipts must be signed by the person receiving the money, stamps, etc. The receipts should be perforated or canceled by some other appropriate means to prevent reuse. At the time of replenishment, the custodian should ensure that the balance remaining in petty cash, together with the amount of the replenishment voucher, equals the authorized balance.
7. No receipts may be deposited to the fund other than approved replenishments and increases to the authorized balance as described above.
8. Revolving funds are public funds and may never be used for personal cash advances, loans or expenditures.
9. Funds may also never be used to provide check-cashing services for employees or others (except in cities that have approved a policy to cash employee's checks in accordance with RCW [35.21.087](#) or RCW [35A.40.110](#); in which case a separate change cash fund should be created solely for this purpose with deposits of cashed items made daily). See the separate procedures applicable to advances for travel expenses.
10. Whenever a revolving fund is abolished or an individual's appointment as custodian is terminated, the fund must be replenished to the authorized amount, reviewed and certified as being turned over to the treasurer or new custodian.
11. See the BARS manual 3.8.2, [Employee Travel](#) for additional guidance specific to advanced travel revolving funds.
12. See the BARS manual 3.8.9, [Confidential Funds](#) for additional guidance specific to revolving funds established for confidential investigative purposes.
13. A list of all authorized revolving funds should be maintained. At a minimum, this list should include the type of account, purpose, authorized balance, custodian, and which fund the cash is reported in. This list acts as support for controls and for the government's bank reconciliation, which will include the authorized balance of all revolving funds as a reconciling item between bank and general ledger.

### 3.8.8.30 Reporting

The authorized balance should be reported as cash in the financial statements in whichever fund expenditures are normally paid from. All funds should be reconciled and replenished to the authorized balance as of fiscal year end to ensure expenditures are recorded.

## **Memberships in Civic and Service Organizations**

### **3.8 Expenditures**

#### **3.8.13 Memberships in Civic and Service Organizations**

3.8.13.10 There has been a dramatic shift in business, social, and governmental cultures which has impacted the way the legal community views implied powers of municipal corporations. Included in this contemporary analysis is recognition that membership in a local civic or service organization may; indeed, benefit a municipal corporation.

3.8.13.20 The AGO and SAO has concluded that the intent of membership payments by a municipal corporation should be considered. However, payments of memberships to fraternal organizations, or community/social organizations such as golf and country clubs, should continue to be questioned. While municipal corporations have no obligation to pay for employee and officer memberships, should they choose to do so, a formal policy should be adopted to include:

1. The legislative body's intent that officers and employees be active participants in service and civic organizations.
2. Those services and civic organizations to which membership fees will be paid on behalf of officers and employees.
3. The limit on the number of individuals for whom membership payment will be made to any on organization, and a delineation of criteria for multiple memberships.
4. The benefit, which the municipal corporation will derive from the membership in an organization and the authorized activity to which such benefit, is related.
5. Those municipal corporation positions for which membership fees will be paid.
6. Ancillary costs of membership which the municipal corporation will or will not pay, or provide reimbursement (i.e. meal costs incurred during meeting, costs incurred traveling to and from meetings, costs incurred as a result of the employees membership such as, time required to attend meetings or for committee participation and time required to perform duties of appointed/volunteer/elected positions) or time and expenses incurred as a result of attendance

at related meetings such as regional, state, or national conventions.

7. Approval authority for payment of expenses incurred as a result of membership in civic or service organizations, or for deviation from established policy.
  
8. Limitations on the dollar amount that will be paid to a single organization or on behalf of an individual.
  
9. A prohibition of employee or officers, whose civic or service organization dues are paid in whole or in part by the municipal corporation:
  - (a) Exerting influence on other employees or officers to provide financial contributions or other support to the civic or service organization.
  
  - (b) Using the civic or service organizations as a forum for lobbying in support of or opposition to political or legislative actions, or the promotion of endeavors in which the officer or employee may have a direct or indirect financial interest or may acquire a personal benefit or gain.

## **Mobile Devices**

### **3.8 Expenditures**

#### **3.8.3 Mobile Devices**

3.8.3.10 Local governments are responsible for the usage of their cellular telephones. They should decide what type of phone service package (call minutes, texting, internet, etc.) to purchase and whether to allow personal use by employees. If personal use is allowed, a policy should be established identifying the parameters for the allowable use of the phone and its service features. In addition, the local government should be monitoring employee compliance with the policy and whether there are non-public related costs incurred that would require reimbursement from employees.

## Paths and Trails - Accounting

### 3.8 Expenditures

#### 3.8.10 Paths and Trails - Accounting

This guidance applies only to cities and counties.

3.8.10.10 Under Chapter [47.30](#) RCW, certain cities, towns, and counties may use a portion of their motor vehicle fuel tax funds to establish and maintain paths and trails for pedestrians, equestrians or bicyclists as a part of streets, roads and highways.

3.8.10.20 The amount a city or county expends annually must be at least .42 percent of the total amount of funds received from the motor vehicle fund according to the provisions of RCW [46.68.090](#). In lieu of expending the funds each year, however, a city or county may set aside such funds into a financial reserve account or a separate fund to be held for this specific purpose provided it is expended within ten years.

3.8.10.30 Chapter [47.30](#) RCW is limited to those cities in which the .42 percent exceeds \$500 per year and to those counties in which the .42 percent exceeds \$3,000 per year. In effect, this means that the annual income from motor vehicle fuel tax must exceed approximately \$120,000 for a city or approximately \$715,000 for a county before it is mandatory to fund paths and trails. Cities and counties with less annual income from motor vehicle fuel tax may fund paths and trails, but are not required to do so.

3.8.10.40 Also, per the Attorney General Memorandum dated June 7, 1982, until a city or county has set up a comprehensive plan for arterial streets and roads as required by RCW [47.26.170](#), they are not required to allocate any portion of the motor vehicle funds to a paths and trails fund. If the local government wishes to receive urban arterial trust moneys, they must have a comprehensive plan which includes provisions for paths and trails. Once a plan is set up, the requirements of RCW [47.30.050](#) apply.

3.8.10.50 Revenues from the motor vehicle fuel tax should be deposited in the respective city street, arterial street, or county road fund and be credited to the appropriate 336 account. All expenditures for paths and trails should be made from the city street, arterial street or county road fund. Account 59562P0 should be charged for construction, 54162P0 for preservation (GAAP entities using modified approach to infrastructure only), and 54262P0 for maintenance.

3.8.10.60 In the event the expenditures accumulated in these accounts at the end of each year do not equal the percentage of motor vehicle fuel tax revenue reserved for this exclusive use, the unexpended balance should be set aside (either in the fund or in a separate fund).

3.8.10.70 Cities or counties exercising the financial reserve option should classify the unspent motor vehicle fuel tax as restricted/reserved within the fund balance. Cities or counties exercising the special fund option should create a paths and trails reserve fund.

## **Purchase Cards**

### **3.8 Expenditures**

#### **3.8.4 Purchase Cards**

3.8.4.10 Credit, debit, fuel, prepaid or other forms of purchase cards are commonly used for purchases when appropriate to improve cash management, reduce administrative costs and increase efficiency.

3.8.4.20 In accordance with RCW [43.09.2855](#), local governments using credit cards must adopt policies and procedures to control credit card payments, including distribution of cards, credit limits, authorization of purchases and support and payment of bills. If cards are used for travel purchases, policies must conform to requirements of RCW [42.24.115](#).

3.8.4.30 Credit card payments must be supported by documentation for every purchase and be audited and certified in accordance with RCW [42.24.080](#) or RCW [42.24.180](#).

3.8.4.40 Officials and employees are prohibited by law from:

- Using publicly-used credit cards for personal purchases, even if the purchase is reimbursed prior to the date that the bill becomes due.
- Using credit cards for cash advances, regardless of the purpose.



## **Redeemed Warrants/Cancelled Checks**

### **3.8 Expenditures**

#### **3.8.7 Redeemed Warrants/Cancelled Checks**

3.8.7.10 Due to many local governments no longer receiving redeemed warrants and canceled checks from their financial institutions the following is guidance which pertains to such effected entities.

3.8.7.20 The State Auditor's Office recommends local governments receive and retain all redeemed warrants and canceled checks from public accounts as part of their public records. This may be either the original (actual) document or *read-only* (certified electronic format). Those entities using the county as their fiscal agent may continue allowing the county to maintain these documents.

3.8.7.30 The reasons for this recommendation are twofold:

1. Receiving and reviewing these documents is an integral part of the entities internal control system. Many disbursement frauds may be detected by having an independent party scan the front and back of all redeemed warrants and canceled checks.
2. Our office is responsible for auditing the receipt, safekeeping and disbursements of public funds. To fulfill this responsibility, we must have access to all original source documents, including redeemed warrants and canceled checks.

3.8.7.40 The SAO recognizes a small cost may be associated with receiving these documents from your financial institutions. However, this cost will be substantially less than costs associated with the SAO requesting these documents during an audit.

## Unemployment and Deferred Compensation

### 3.8 Expenditures

#### 3.8.1 Unemployment and Deferred Compensation

##### 1. Accounting for State Unemployment Compensation

3.8.1.10 All local governments have a choice between either the tax basis or in-lieu contribution basis for making payments to the Department of Employment Security (DES) (RCW [50.44.030](#)). The accounting procedures for the two options, by type of local government, are detailed below:

##### 3.8.1.20 OPTION 1 - TAX (CITIES/TOWNS/COUNTIES) (RCW [50.44.035](#))

Contact the Department of Employment Security to determine the appropriate tax rate(s) for your particular unit of government. Apply the rate to all functional expenditure/expense accounts that have direct salary or wage charges, using the employer fringe or personnel benefits object applicable to your local government, each time a payroll is prepared. Do not apply the rate to salaries and wages of the following: (1) elected officials; (2) Job Training Partnership Act (JTPA) employees to the extent their earnings are within the maximum gross pay allowable under the JTPA programs; or, (3) policy-making employees that do not work more than eight hours per week.

Remit unemployment taxes quarterly to the Department of Employment Security.

##### 3.8.1.30 OPTION 2 - IN-LIEU CONTRIBUTION (REIMBURSEMENT) (RCW [50.44.060](#))

All local governments may use Option 2. Under this option, the DES will pay unemployment claims and then bill the local governments for reimbursement.

##### Method A

Create an internal service fund for unemployment - Unemployment Compensation Fund. The purpose of this fund is to create a reserve for future unemployment claims by receiving periodic cash contributions from operating funds. The amount of these cash contributions depends on the estimate of future unemployment claims. The estimates should be reviewed and adjusted periodically, based on experience. Typically, estimates are based on a three to five year history of actual claims, but each entity should determine the method that works best for them. There may be different rates for departments and funds within the same government. The periodic cash contributions from operating funds will be charged to the functional expenditure/expense accounts in the operating funds in the same manner as premium payments paid to the DES. Payments to the DES must be made from the Unemployment Compensation Fund. Interest earnings on investment of the contributions may be used for the benefit of the Unemployment Compensation Fund (thereby reducing charges to the operating funds) or the general (current expense) fund per RCW [35.39.034](#). An ordinance or resolution must govern this choice.

##### Method B

The local government may participate with other local governments in an unemployment pool or cooperative as provided for in RCW [39.34.030](#). If you participate in such a cooperative, the contributions from your funds should be charged as expenditures/expenses functionally according to the applicable chart of accounts. In this case, the pool or cooperative will pay the billed amounts to the DES.

Rates charged to the participants should be adjusted periodically based on the experience of each participant.

3.8.1.40 Since claims made by the DES must be paid by statute, it is not necessary to appropriate funds for their payment; however, we recommend that appropriations be made by local governments to ensure their ability to pay future claims.

## **2. Deferred Compensation Plans - Internal Revenue Code - Section 457**

3.8.1.50 RCW [41.50.770](#) authorizes all political subdivisions to defer income for all officials and employees. This statute also allows political subdivisions to enter into agreements with certain institutions, such as banks, savings and loan associations and insurance companies, to establish deferred compensation plans for the benefit of their employees. These plans must be in conformity with the requirements of Section 457 of the Internal Revenue Code.

3.8.1.60 Deferred compensation plans permit employees to accept less than the full amount of salary earned thus reducing their current federal income tax liability. The amount by which the salary is reduced is invested by the employer and upon retirement, disability, termination, unforeseen emergency, or death may be withdrawn by the employees or their beneficiaries.

3.8.1.70 The plan must be established correctly and administered properly so that the Internal Revenue Service (IRS) does not rule that the plan is not in conformity with the requirements of Section 457 of the Internal Revenue Code.

3.8.1.80 Because of the many plans available, it is strongly recommended that any local government which intends to establish a deferred compensation plan seek legal counsel to determine conformance with the Internal Revenue Code, Section 457, effective August 20, 1996<sup>[1]</sup>, and obtain approval of the chosen plan by the district.

3.8.1.90 Caution should be exercised in implementing a plan, not only to protect the employer's legal liability, but also to prevent undue administrative complexities. No one can identify all problem areas of deferred compensation plans and their administration, as many problems may surface as a result of choosing a particular carrier, product or administrative system. Some major administrative requirements are as follows:

### **a. Make Written Agreements with Plan Administrator**

All local government deferred compensation plans should provide for written agreements which clearly define the duties and responsibilities of the employer and the administrator.

b. Keep an Employee File for Each Employee

A file to keep a deferred compensation record for each participating employee is necessary. Most carriers will provide the forms and basic accounting information for the employer, but the employer is responsible for maintenance of the files.

The participating employees must complete and sign joinder agreements stipulating the amount of their gross salaries or wages to be deferred. The local government should also maintain a written agreement which details any responsibilities of the employer for contributions, fees, charges, earnings, losses and withdrawals.

c. Withdrawals

The procedures for withdrawals should be clearly defined and the employer should be very careful in accepting any employee requests for amounts to be withdrawn from accumulated deferred compensation assets for unforeseeable emergencies, as any employee withdrawal granted which does not qualify under Internal Revenue Code Section 457 could cause the entire deferred compensation plan for all employees to be considered in violation and invalid by the IRS.

Normally, all withdrawals as a result of retirement, disability, termination, unforeseen emergency or death, will be paid to the employer by the bank, credit union, or other institution (the agent) with which the employer (the principal) has the agreement.

In such cases, the employer will receipt for the payment referred to above, deduct the appropriate amount for federal income tax withholding and disburse the remaining amount to the employee, former employee or beneficiary as applicable. The employer will then remit the federal income tax withheld to the IRS or to the official depository as it presently is required to do. The employer will issue W-2 forms to the participants in the plan who have received payments of deferred income.

The W-2 will show the gross payment made to the participant or beneficiary and any deductions made.

However, the IRS has approved some plans whereby the administering company acts as agent for payments to the employees, issuance of W-2 forms and remittances to the IRS. Such IRS approved plans, which are still in conformance with the requirements of Section 457 Internal Revenue Code, will be permitted.

d. Maximum Contribution

Local governments should refer to the Internal Revenue Service for allowable annual contribution limits.

e. Budget Salaries and Wages in Year Earned

All local governments required to budget revenues and expenditures by fund should be required to budget the gross salaries and wages including the deferred compensation amounts as expenditures

of the year in which the salaries or wages are earned.

f. Establish Plan as a Pension (and Other Employee Benefit) Trust Fund (if applicable)

All IRC Section 457 plans have to be held in a trust for the exclusive benefit of participants and their beneficiaries.

3.8.1.100 Under the new law, the local governments do not own either the amounts deferred by employees or related income on those amounts. Accordingly, [GASB Statement 32 \[2\], Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans](#), requires the governments to report their plans as pension (and other employee benefit) trust funds in their financial reports. This requirement applies only to the local governments which administer the deferred compensation plan by themselves.

3.8.1.110 The local governments should keep detailed accounting records of the deferred compensation plan. However, if those records can be provided by the administrator of the plan, no duplication is necessary.

**[1]** The deferred compensation plan was revised by the H.R. 10 which was included in the Economic Growth and Tax Relief Reconciliation Act of 2001 and signed into law on June 7, 2001.

**[2]** As amended by [GASB Statement 34, Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments](#).

## Use of Payroll and Claims Funds

### 3.8 Expenditures

#### 3.8.6 Use of Payroll and Claims Funds [1]

##### 3.8.6.10 Purpose

For the purposes of the BARS, the term *clearing fund* includes both payroll and claims clearing funds.

Clearing funds are an internal accounting control that allow for separate tracking of outstanding warrants or other disbursements. Such funds provide an additional check as part of the bank reconciliation process and provide visibility to the amount of outstanding items for cash management purposes.

##### 3.8.6.20 Budgeting

Payroll and claims clearing funds are not budgeted because they represent an additional internal accounting control for disbursements that are properly budgeted in other funds.

##### 3.8.6.40 Accounting

Money transferred to the clearing fund should be coded in the clearing fund as nonrevenues (3890000) and disbursements should be coded as nonexpenditures (589PP00). For more details see [BARS Account Export](#).

3.8.6.50 The clearing funds are not operating funds, so accounting entries should be limited to beginning cash and investments, nonrevenues for cash transferred from other funds when warrants (or other disbursements) are issued, nonexpenditures for redemptions and ending cash and investments.

3.8.6.60 Therefore, at all times:

- Beginning cash and investments should be equal to the total outstanding and open period disbursements at the beginning of the period;
- Nonrevenues should be equal to disbursements issued during the period;
- Nonexpenditures should be equal to disbursements redeemed during the period; and
- Ending cash and investments should be equal to the total currently outstanding disbursements plus any amounts withheld from payrolls and temporarily unremitted (such as quarterly L&I payments). At year end, the ending balance will also include any disbursements issued during the open period.

3.8.6.30 Clearing funds cannot be provided with any working capital. Therefore, the money for redemptions must be transferred to the clearing fund from the appropriate operating fund on the same day that the warrants (or other disbursements) are issued. If the operating fund is insolvent, it

must issue a registered interest-bearing warrant to the clearing fund instead of a transfer. This registered warrant should be deposited along with other cash receipts. When a clearing fund disbursement is canceled, the amount of the canceled warrant must be transferred back to the appropriate operating fund.

3.8.6.70 The warrants issued against a clearing fund must be recorded in the appropriate warrant register in strict numerical and chronological order and the expenditures applicable to the claim vouchers supporting the warrant issue must be recorded in the distribution of expenditure ledgers for the various operating funds in the same order and bear the same dates.

#### 3.8.6.80 **Controls**

The approved warrants should be recorded in the minutes of the governing body (see [Voucher Certification and Approval](#)).

3.8.6.90 The distribution of expenditures from the vouchers to the budgetary control records must agree with the totals accumulated in the warrant registers. On a monthly basis, nonrevenues should be compared to warrants or checks issued, nonexpenditures compared to redemptions and the ending balance to outstanding warrants or checks. Any differences should be investigated and resolved. This process should be documented as part of the bank reconciliation.

#### 3.8.6.100 **Reporting**

Statutes require use of clearing funds for counties, and use of clearing funds is a common practice for cities and other governments that issue their own warrants and checks. However, clearing funds should not be reported on the financial statements because they represent an internal accounting control for disbursements that are properly reported as expenditures in other funds.

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[1] RCW [35.21.085](#), RCW [36.33.060](#), RCW [36.33.065](#)

## Voter Registration and Election Cost Allocation

### 3.8 Expenditures

#### 3.8.12 Voter Registration and Election Cost Allocation

This guidance applies only to counties.

3.8.12.10 This interpretation establishes uniform procedures for allocating voter registration and election costs incurred by counties. These procedures are mandatory for elections held after January 1, 2010.

RCW [29A.04.410](#) Every city, town, and district is liable for its proportionate share of the costs. Special election costs must be borne by the city, town, or district concerned.

RCW [29A.04.420](#) The state should assume a prorated share of election costs when state officers or measures are voted upon at a state primary or general election held in an odd-numbered year under RCW [29A.04.321](#).

RCW [29A.08.150](#) The expense of registration in all rural precincts must be paid by the county. The expense of registration in all precincts lying wholly within a city or town must be paid by the city or town. Registration expenses for this section include both active and inactive voters.

RCW [29A.32.270](#) The cost of a local voters' pamphlet shall be considered an election cost to those local jurisdictions included in the pamphlet and shall be prorated in the manner provided in RCW [29A.04.410](#).

##### A. Voter Registration or Election Costs to be Allocated

3.8.12.20 BARS account 51490P0 is prescribed for voter registration and voter precinct costs. Costs charged to this account must be specifically for voter registration purposes and will include proper object codes. Time records and other documentation must be maintained to support expenses allocated to voter registration costs.

3.8.12.30 BARS account 51440P0 is prescribed for election costs. Costs charged to this account must be specifically for election purposes and will include proper object codes. Time records and other documentation must be maintained to support expenses allocated to election costs.

3.8.12.40 Allowable costs that may be included for either voter registration or elections are:

##### 1. Salaries and Wages (BARS Object 10)

Include all personnel costs, including salaries, wages, and overtime, for time specifically devoted to voter registration or elections. Personnel may include:

a. Permanent office staff



- b. County auditor
- c. Extra or temporary help
- d. Paid election observers
- e. Poll workers
- f. Voting center workers
- g. Security

Adequate records are to be maintained to support payroll charges.

## 2. Benefits (BARS Object 20)

Include those benefits associated with the salaries and wages identified above.

## 3. Supplies (BARS Object 30)

Include supplies for voter registration or an election (e.g., stationery, forms, cards, pencils, small items of equipment, items for repair and maintenance of equipment, etc.). The cost of large supply purchases should be apportioned between the elections and/or voter registration if benefited.

## 4. Services (BARS Object 40)

- a. Communication - Charges for telephone and related costs associated with voter registration or elections.
- b. Postage - Charges associated with voter registration or elections. Include postage for mailing ballots, letters, notices to voters, voter pamphlets, post office charges, and other mailings.
- c. Transportation - Cartage for voting equipment, messenger service, and travel expenses including mileage allowances.
- d. Advertising - Include the cost of publishing required notices, paid announcements, and voter outreach specific to an election or voter registration.
- e. Printing and binding - Include the cost of printing materials used for voter registration or in an election. If the printing order is used for more than one election and/or voter registration, the cost should be apportioned between the elections or voter registration benefited.
- f. Repairs and maintenance - Charges for repair and maintenance to election and voter registration equipment.
- g. Rentals - Charges for rental of office space, storage spaces, vehicles, etc.
- h. Training - Include in house training, workshops, conferences, and other educational opportunities.

## 5. Equipment (BARS Object 00)

Do not include charges for capital outlays. However, depreciation or use charges for such items as ballot tabulation equipment, accessible voting units, ballot sorters, voting center equipment, computers, printers, voter registration management systems, etc., are allowable. Charges must be based on rates that will result in a reasonable recovery of the original equipment over its useful life. Ledgers detailing historical cost, estimated salvage value, useful life, and accumulated charges

should be available.

No depreciation or use charge is allowable where the 15 percent overhead factor is used or when grant funds were used to purchase the equipment.

Equipment replacement fees are not considered depreciation or use charges and may be included in the total costs for an election or voter registration.

## 6. Interfund Charges

Interfund charges are billed services from other county funds/departments. Charges must be consistent with those to other funds and departments.

Interfund charges directly attributable to an election or voter registration are considered direct costs and may be included in the total costs of an election or voter registration. Other interfund charges are not allowable where the 15 percent overhead factor is used.

### B. Election Operations May Be Recorded in an Internal Service Fund

3.8.12.50 Election operations may be accounted for in an internal service fund or the general fund.

### C. Overhead Is Allowable

3.8.12.60 Overhead or indirect costs attributed to the county auditor are allowable as determined by a federal indirect cost allocation plan. The plan must be prepared in accordance with the Uniform Guidance. Do not include any cost in the plan costs that are already included as an internal service fund charge.

3.8.12.70 In the absence of a federal cost allocation plan, or at the option of the county auditor, a flat 15 percent of adjusted general costs is allowable for overhead. Adjusted general costs are the total of salaries and wages, employee benefits, supplies, and other services and charges properly charged to the appropriate BARS account.

3.8.12.80 The 15 percent overhead factor is in lieu of interfund charges and depreciation. The factor may be used when accounted for in an internal service fund or the general fund.

### D. Charge a Minimum Fee

3.8.12.90 The county auditor should collect a minimum fee of at least \$50 from each jurisdiction. The fee will be used for all jurisdictions charged with voter registration/election costs and will be added after the allocation of costs.

### E. The Method of Allocating Costs

#### 3.8.12.100

##### 1. Allocation of voter registration costs

- a. Determine the total voter registration costs for the entire fiscal year. Include amounts from the federal indirect cost allocation plan only if not using a flat 15 percent overhead factor.
- b. Subtract revenue attributable to voter registration services.
- c. Subtract any direct costs associated with a specific jurisdiction.
- d. Total the number of active and inactive registered voters for all jurisdictions.
- e. Determine the number of active and inactive registered voters in each city/town. Subtract total active and inactive voters of every city/town from the total active and inactive voters (step 4) in the county voter registration rolls to obtain those voters under county jurisdiction.
- f. Divide each jurisdiction's number of active and inactive registered voters (step 4) by the total number of active and inactive registered voters (step 5) to yield a percentage cost factor.
- g. Multiply the percentage cost factor (step 6) times the voter registration costs to determine each jurisdiction's allocated cost.
- h. Add any direct costs, and the 15 percent overhead factor, if applicable, to each jurisdiction's allocated costs. This will give the total amount due from each jurisdiction.

### 3.8.12.110

#### 2. Allocation of election costs

Two approved methods for allocating election and/or voter pamphlet costs are detailed below. A county, once having adopted a method of allocating election costs or voter pamphlet costs, should use the same parameters for all elections within the next election cycle.

Allocate costs between all jurisdictions participating in an election by using one of the two prescribed methods. The county will absorb costs allocated for federal offices, state offices and state issues whenever the state does not reimburse for these costs.

Only jurisdictions that participate in voter pamphlets will share those costs.

### 3.8.12.120

#### a. Method One

This method allows for recovery of additional expenditures associated with multiple offices or issues on the ballot for each jurisdiction. Use of this method requires selecting a factor to be applied to each additional office or issue within a jurisdiction. The factor must be between ranges of 0 to 0.2 and should represent the most accurate recovery of costs.

1. Determine the total costs for an election. Include amounts from the federal indirect cost allocation plan, if applicable.
2. Subtract a minimum service amount of at least \$50 per jurisdiction and any direct costs associated with a specific jurisdiction, resulting in the election costs to be allocated.
3. For each jurisdiction participating in the election determine the number of active registered voters.
4. Determine the factor for the number of issues and offices for each jurisdiction. A base factor of 1.0 will be assigned for the first ballot issue or office for the jurisdiction. For each additional issue or office the selected factor will be added. For example in a county using 0.15, a city with

3 offices to be decided would have a factor of 1.3 (1.0+0.15+0.15).

5. Multiply the issue and office factor (determined in step 4) times the number of active registered voters (determined in step 3). This will give a weighted registration factor.
6. Total the weighted registration factors (step 5) for all jurisdictions.
7. Divide the weighted registration factor (step 5) for each jurisdiction by the total weighted factor (step 6) to yield a percentage cost factor.
8. Multiply the percentage cost factor (step 7) times the election costs to be allocated to determine each jurisdiction's share.
9. Add the minimum service amount, any direct costs, and the 15 percent overhead factor, if applicable, to the allocated election costs for each jurisdiction. This is the total amount due from each jurisdiction.

### 3.8.12.130

#### b. Method Two

This method allocates costs based on the number of registered voters in each jurisdiction. Jurisdictions are not charged for additional offices or issues placed on the ballot.

1. Determine the total costs for an election. Include amounts from the federal indirect cost allocation plan, if applicable.
2. Subtract a minimum service amount of at least \$50 per jurisdiction and any direct costs associated with a specific jurisdiction, resulting in the election costs to be allocated.
3. For each jurisdiction participating in the election determine the number of active registered voters.
4. Total the number of active registered voters (step 3) for all jurisdictions.
5. Divide each jurisdiction's number of active registered voters (step 3) by the total number of active registered voters (step 4) to yield a percentage cost factor.
6. Multiply the percentage cost factor (step 5) times the election costs to be allocated to determine each jurisdiction's share.
7. Add the minimum service amount, any direct costs, and the 15 percent overhead factor, if applicable to the allocated election costs for each jurisdiction. This is the total amount due from each jurisdiction.

#### F. Charge a Minimum Fee

3.8.12.140 The county auditor should collect a minimum fee of at least \$50 from each jurisdiction. The fee will be used for all jurisdictions charged with election costs and will be added after the allocation of costs.

#### G. Account for Costs of Recounts Separately

3.8.12.150 When a recount is requested, the requestor is charged the cost of the recount. (See Chapter [29A.64](#) RCW.) Mandatory recount costs are billed to the affected jurisdiction as direct costs and should be shown separate from charges for other election costs. The fee collected is a charge for a service.

H. Effective Date

3.8.12.160 Effective for elections held after January 1, 2010.

I. Election Reserve Fund

3.8.12.170 As authorized by the RCW [36.33.200](#), the board of county commissioners may establish an election reserve fund for the payment of expenses of conducting regular and special state and county elections and compensation of election and registration officers and annually budget and levy a tax therefor. It may also make transfers into the election reserve fund from the current expense fund and receive funds for such purposes from cities, school districts and other subdivisions.

## Voucher Certification and Approval

### 3.8 Expenditures

#### 3.8.5 Voucher Certification and Approval [1]

3.8.5.10 All claims against a municipality must be preaudited by the auditing officer of the municipality or his/her delegate. In addition, all claims must be certified by the auditing officer. *Claims* refer to all external payments that are made to satisfy obligations of the entity, regardless of how payments are processed (i.e., through warrants, checks, EFTs, etc.). *Claims* would include refunds or reimbursements, bond payments, federal tax payments, payments to other governments, grants, transfers or payments made to component units or joint ventures, etc. *Claims* would not include interfund loans, interfund reimbursements or payments (i.e., to internal service funds), indirect cost allocations or other internal accounting transactions, purchases of investments or transfers between bank accounts both owned by the entity, etc.

The auditing officer's certification may be made on each individual claim voucher or, subject to the acceptance and approval of the municipal legislative body, a blanket voucher certification may be used so long as it indicates the particular vouchers so certified. The use of a blanket certification in no way relieves the auditing officer of his/her responsibility and liability for each individual voucher so certified. The certification must be signed and dated by the auditing officer or his/her delegate. For all claims, except expense reimbursement claims certified by officers or employees (see [Employee Travel](#)), the certification must include the following language:

*I, the undersigned, do hereby certify under penalty of perjury that the materials have been furnished, the services rendered or the labor performed as described, or that any advance payment is due and payable pursuant to a contract or is available as an option for full or partial fulfillment of a contractual obligation, and that the claim is a just, due and unpaid obligation against the (city/county/district), and that I am authorized to authenticate and certify to said claim.*

3.8.5.20 The auditing officer's certification for employee/officer expense reimbursement claims must include the following language:

*I, the undersigned, do hereby certify under penalty of perjury that the claim is a just, due and unpaid obligation against the (city/county/district), and that I am authorized to certify to said claim.*

3.8.5.30 The certification by the auditing officer in no manner relieves members of the governing body from the responsibility and liability for each voucher approved. It is the governing body's responsibility to ensure that the system of auditing and certifying vouchers is operating in a manner to provide the greatest possible protection for the governing body members and the municipality.

3.8.5.40 To indicate governing body approval for payment of claim vouchers and payroll, the following should be entered in the minutes:

**The following voucher/warrants/electronic payments are approved for payment:**

<b>(Funds) Voucher (Warrant)</b>	<b>Total</b>
numbers: ____ through ____	\$ ____
<b>Payroll warrant</b>	
numbers: ____ through ____	\$ ____
<b>Electronic Payments</b>	
dates: ____ through ____	\$ ____

3.8.5.50 If the legislative body authorizes the procedure, cities, counties and districts may issue warrants, checks or electronic payments before the legislative body approves claims. To do this the municipality must enact the following policies and procedures (required in Chapter [42.24](#) RCW):

1. The auditing officer and the officer designated to sign the checks, warrants or initiate an electronic payment must have an official bond. The amount should be determined by the legislative body but cannot be less than \$50,000 (RCW [42.24.180](#));
2. The legislative body should adopt contracting, hiring, purchasing, and disbursing policies that implement effective internal control; for electronic payments, the legislative body should adopt information technology policies that implement effective internal control over technology used to initiate and approve electronic payments.
3. The legislative body must review and approve the claims paid at its next regularly scheduled public meeting, or for cities and towns, at a regularly scheduled public meeting within one month from issuance; and
4. If the legislative body disapproves some claims, the auditing officer and the officer designated to sign the checks, warrants or initiate the electronic payment must recognize these claims as receivables of the taxing district and pursue collection diligently until the amounts are either collected or the legislative body is satisfied and approves the claims.

3.8.5.60 The legislative body may stipulate that certain kinds or amounts of claims should not be paid before the board has reviewed the supporting documentation and approved the issue of checks, warrants or electronic payments in payment of those claims.

3.8.5.70 The original copy of all vouchers should be filed in the office of the auditing officer of the municipality. The detailed accounts to which the expenditures are to be posted must be clearly designated. Supporting documentation must be retained and either attached to the vouchers or canceled by the auditing officer to prevent reuse. See [Original Supporting Documentation](#) for requirements.

3.8.5.80 Districts that do not issue their own warrants should send either original vouchers or other supporting documentation (e.g., listing of approved vouchers, etc.) to the county auditor.

**[1]** Chapter [42.24](#) RCW



# Interfund Activities

## Interfund Activities Overview

### 3.9 Interfund Activities

#### 3.9.8 Interfund Activities Overview

3.9.8.10 BARS requires that each fund be supported by its own separate set of self-balancing accounts. As such, funds will often interact with one another. **Interfund Activity** is defined as financial interactions between the funds of a government (including legally separate blended component units).

3.9.8.15 Interfund activity should be reported within each fund as described below. Governments that roll up or consolidate a fund (or funds) with another fund of the government (for example, the consolidation of managerial funds or activity between departments within a single fund) should redefine the interfund activity between these funds as *intrafund* activity and eliminate it for reporting.

3.9.8.20 Interfund activity is split into two broad categories and four smaller subcategories. The categories and subcategories are as follows:

**1. Reciprocal Interfund Activity** - A situation or transaction involving the exchange of equal or almost equal value between funds. There are two types of reciprocal interfund activity:

**a. Interfund Loans** - Borrowings or advances from one fund to another fund with the expectation of repayment through collection of principal payments and interest as stipulated in a loan document, resolution, and/or ordinance. Please note that if there is no reasonable expectation for repayment, the loan should instead be reported as an interfund transfer. For more information about loans and what constitutes as reasonable expectation of repayment see [3.9.1, \*Interfund Activities/Loans\*](#).

**b. Interfund Services Provided and Used** - As part of regular fund activity, one fund could sell goods or services to another fund in return for assets (such as cash or goods) of equal or almost equal value. Interfund services provided and used are accounted for and recognized as normal revenues and expenditures/expenses. Examples of interfund services include:

- Purchase of goods or service: water fund selling water to the parks department of the general fund, parks facility rental to the water department for public meeting, permitting department selling a permit to the sewer department (sewer fund).
- Property transfers: Property transferred between funds of the same local government. For details see [3.9.2, \*Interfund Activities/Property Transfers\*](#).
- Cities only: Utility tax levied by the general fund on its own utility. For details see [3.6.13, \*Tax Revenues/Utility Tax\*](#).

**2. Nonreciprocal Interfund Activity** - A situation that does not involve the equal or near equal

exchange of value between funds. One fund gives (or receives) value without receiving (or giving) value in return.

a. Interfund Transfers - A flow of assets (such as cash or goods) from one fund to another without the return of equivalent assets, goods or services, or requirement for repayment. An example of an interfund transfers include:

- Regular operations subsidies such as the general fund provides an annual operating subsidy to a transit enterprise fund.
- Cities only: Utility surplus transfers as allowed by RCW. For details see [3.9.3, Interfund Activities/Utility Surplus Transfers](#).

b. Interfund Reimbursements - A repayment from the fund responsible for a particular expenditure or expense to a fund that initially paid for them. Interfund reimbursements are reported as an expenditure/expense in the fund ultimately responsible and as a reduction of the expenditure/expense in the fund being reimbursed.

Reimbursement situations generally result out of convenience, because of errors, or due to from routine administrative transactions; however, these can also occur when a government is not able to determine proper fund allocation of an expenditure at the time it is incurred. Interfund reimbursements examples include:

- Reimbursements to correct errors or allocate payments for pooled activities (payments for a convenience) such as distribution of telephone bills among the departments and funds after one department has paid the bill. For details see [3.9.4, Interfund Activities/Reimbursements](#).
- Overhead cost allocation - Costs of central services or support functions shared across departments and provided on a cost reimbursement basis. For details see [3.9.5, Interfund Activities/Overhead Cost Allocation](#) and (GAAP only) [3.9.6, Interfund Activities/Internal Service Funds](#).

3.9.8.30 Reporting of transactions in funds for interfund activity [note: for GAAP entities this activity should be recognized according to the fund’s basis of accounting]:

Type of Interfund Activity	Fund Providing/Receiving	Fund Benefitting/Paying
Interfund loans (Cash)	5811 - Loan disbursed 3812 - Repayment receipts 3614 - Interest receipts	3811 - Loan received 5812 - Loan payment 592PPPX - Interest paid
Interfund loans (GAAP)	Interfund loan receivable 3614 - Interest receipts	Interfund loan payable Interest expense
Interfund services provided and used	Revenue	Expenditure/Expense
Interfund transfers	397 - Transfer-in	597 - Transfer-out
Interfund reimbursements	Reduction of expenditure or expense	Expenditure/Expense

## **Equipment Rental and Revolving (ER&R) Fund**

### **3.9 Interfund Activities**

#### **3.9.7 Equipment Rental and Revolving (ER&R) Fund**

3.9.7.10 Equipment Rental and Revolving funds, also known as ER&R funds, are established to provide equipment rental services within a local government. They increase government efficiency by giving the government a way to allow expensive equipment and supplies to, in essence, be rented to the government's various departments. ER&R funds are internal service funds and should operate on a cost reimbursement basis (without generating a profit). Their rental equipment can include items such as computers, police and fire vehicles, heavy road equipment and specialized high voltage trucks.

All counties (RCW [36.33A.010](#)) and cities with populations over 8,000 (RCW [35.21.088](#)) are legally required to have an ER&R fund for operating county road and city street departments. ER&R funds may be expanded to provide services to other departments including public works, utilities, fire and police.

ER&R funds are created by county commissions or city councils. Counties pass a resolution and cities pass an ordinance defining the origin of the resources, purpose, and specific duties of the fund. Start-up resources usually come from an interfund transfer of cash and/or equipment. The transfer may be as a loan or a permanent transfer. Further discussion of internal service funds and overhead cost allocations can be found in the Budgeting, Accounting and Reporting System (BARS) Manual at [3.9.6](#) and [3.9.5](#), respectively.

#### **3.9.7.20 Operation of the Fund**

Management of the ER&R fund is responsible for ensuring that the fund's operation complies with what is set out in the resolution or ordinance.

Goals of the ER&R program may include: setting rates that sufficiently cover the costs of operation and provide for equipment replacement; charges to departments that are equitable, fair, and reasonable; proper tracking of assets and equipment; and proper investment of reasonable and necessary reserves.

The assets of ER&R funds should be tracked and inventoried as with other assets, but also for purposes of assisting management with having sufficient information to establish rates and plan for asset replacement. As such, information about historical cost, purchase date, primary user versus pooled asset, expected life, and anticipated replacement cost of the asset is important. Further discussion on records that should be maintained for revenue assets can be found in BARS at [3.9.6.120](#) and [.130](#).

ER&R funds should charge fees for all services, staff, facilities or equipment in a manner that is

consistent and equitable to all participating funds or departments.

ER&R funds, as with other internal service funds, are collected for a specific purpose. The ER&R funds should be segregated, tracked and used for their intended purpose or returned to the originating funds in an equitable manner if they are no longer needed.

The fund balance of the ER&R fund should reflect a level that is anticipated to assure continued operation of the fund. Management policies should support the amount of cash reserves necessary for continued operation of the fund and timely replacement of vehicles or equipment; as determined during the rate setting process.

Guidance on accounting, management and controls over capital assets is available in the BARS Manual at [3.3](#).

### 3.9.7.30 **Rate Setting**

ER&R rate structures should cover all costs associated with the operation of the fund. In counties, the rate structures are determined by the county engineer and must be reviewed annually by the legislative body (RCW [36.33A.040](#)).

Rates can be developed for individual assets or similar groups of assets. They can also be billed as a single rate or separately. Composite rates (single rates that apply to dissimilar assets) should be avoided as they tend to lead to overcharges or undercharges.

All actual costs associated with the operation of the ER&R fund should be included when determining the rate structure for equipment. Allocation of the costs should be made on an equitable basis, such as asset life. Costs should be allocated for salaries and benefits, general cost of operations, attorney fees, insurance, etc.

Rental rates are typically composed of four components:

1. Expenses due to maintenance and operation (employee wages, building rental, equipment repair, supplies, etc.).
2. Depreciation of equipment (for equipment replacement).
3. A surcharge for equipment replacement.

Replacement cost is that amount that is anticipated to replace the existing asset above the cost being recovered through depreciation. It is extremely important to have a system in place that separates charges for replacing equipment from the other components. Most federal grants allow only actual costs to be submitted for reimbursement. Surcharges for equipment replacement are an estimate and not allowable under the [Uniform Guidance, 2 CFR 200, Subpart E – Cost Principles](#). Inclusion of surcharges for equipment replacement in federal reimbursement requests could lead to questioned costs.

4. Corrections for prior year charges.

Rates should be re-evaluated on a yearly basis, and adjusted when needed. This would include review of the inflation factor as well as operational costs. Governments should avoid locking in rates contractually with departments over long periods as they will need to be periodically adjusted to ensure adequate amounts are charged to recoup costs and plan for the replacement of equipment.

Deficiencies in revenues should be made up from rate increases, or transfers from the general fund or funds of the departments using the services. Excess revenue should be allocated back to departments that are over charged. Governments should ensure practices are equitable to prevent one fund benefitting another inappropriately (RCW [43.09.210](#)).

**3.9.7.40 Charges to Federal Programs**

As noted above, governments should be cautious when charging ER&R costs to federal programs and be aware of the terms and conditions of the federal award and the following federal guidelines in the Uniform Guidance, including, but not limited to:

- [2 CFR §200.416](#) Cost allocation plans and indirect cost proposals
- [2 CFR §200.465](#) Rental costs of real property and equipment
- [Appendix V to Part 200](#) State/Local Government-Wide Central Service Cost Allocation Plans
- [Appendix VII to Part 200](#) - States and Local Government and Indian Tribe Indirect Cost Proposals

## Internal Service Funds

### 3.9 Interfund Activities

#### 3.9.6 Internal Service Funds

3.9.6.10 The use of internal service funds, unless legally required, is not required by the generally accepted accounting principles (GAAP). However, GAAP permits internal service funds to be used for activities that provide goods and services to other funds or departments or other governments on the cost reimbursement basis. The use of an internal service fund is only appropriate if the sponsoring government is the predominant user of the services. Otherwise, an enterprise fund should be used.

3.9.6.20 For counties and cities (with population over 8,000), equipment rental funds are legally mandated for operating county road and city street departments by Chapter [36.33A](#) RCW and RCW [35.21.088](#), respectively.

3.9.6.30 The internal service fund is increasingly being used by governments as an effective way to identify the costs of providing specific services. The internal service funds are proprietary funds, which are accounted for on a flow of economic resources measurement focus, which requires full accrual accounting. The basic financial statements required are a statement of net position (or balance sheet), statement of revenue, expenses, and changes in fund net position, and statement of cash flows.

3.9.6.40 Prior to establishing a new fund, a review of existing state laws and regulations should be conducted to ensure the legality of using this fund classification. Careful consideration must also be given to defining the specific activity to include in the fund, the specific cost objectives associated with providing the service, development of pricing rates and budgetary concerns.

#### Establishment

3.9.6.50 The internal service fund is usually accomplished by a contributions and/or transfers of cash or capital assets from the general (current expense) fund and other funds. When nonmonetary assets are contributed or transferred within the government the assets must be recorded at the book value. Transfers of assets within the government cannot result in an overall increase in equity within the government.

#### Transferring fund (proprietary funds only\*)

Nonoperating Expense	xxx
Capital Asset	xxx

\*Government funds do not report capital assets – thus, no entry is required.

Receiving fund

Capital Asset	xxx	
Capital Contribution		xxx

3.9.6.60 If the contributed nonmonetary assets were originally acquired with restricted resources, the government must monitor their usage and disposal to assure that one fund does not benefit from another (RCW [43.09.210](#)). If management's intentions are to repay the cash transferred to the internal service fund, the transfer should be recorded as an *Advance To/From Other Funds* in the appropriate funds.

Depreciation

3.9.6.70 Internal service funds are proprietary funds so depreciation of capital assets must be recorded.

Rates

3.9.6.80 Rates charged for use of internal service equipment facilities should normally include three components:

- Current cost of maintenance and operation, without exception,
- A reasonable charge for depreciation,
- A surcharge for equipment replacement.

3.9.6.90 Rates can be developed for individual assets or similar groups of assets. Composite rates - single rates developed to apply to dissimilar asset groups - should be avoided. Rates developed in this manner tend to overcharge or undercharge depending on the type of asset used. Rates may be billed as a single rate or each rate component can be billed separately. Rates should be reviewed at regular intervals.

3.9.6.100 It is not necessary to record the individual components of the rate on the asset(s) profit and loss record, however, it is necessary to be able to identify and extract that portion of the rate, which applies to any replacement surcharge. This portion of the rate is an unallowable charge against most federal programs in accordance with the federal cost principles established in Circular A-87. It should also be noted that many state grants are actually federal indirect or pass-through money. In these cases Circular A-87 is also applicable.

3.9.6.110 When dedicated revenue assets are traded-in, the net operating gain or loss needs to be noted on the asset record of the new asset and included in the new operating rate structure. Net operating gain (or loss) is the excess of billings over costs (or the reverse). Pooled asset records do not need to show this separate source.

Management Information

3.9.6.120 Management must maintain records which will identify all revenues and costs associated with an asset or asset group. *Revenue assets* are those facilities or items of equipment, which are directly rented to users or operated directly for a user. Examples include motor pool vehicles, computer mainframes and terminals, and telephone systems. *Dedicated revenue assets* are those which have a single fund or department as their primary user, such as police cars or election equipment.

3.9.6.130 A separate record of costs and revenues should be maintained for each internal service fund revenue asset, but group asset records can be acceptable. This requirement does not apply to service equipment, such as repair shops or fuel pumps. The record for each revenue asset should include the following items:

1. Type of asset and a cross reference to the individual capital asset record; identification of primary user if it is dedicated, or whether it is a pool asset.
2. A periodic summary (at least annually) of all operating expenses, including any special operator costs.
3. Periodic depreciation expense and indirect expenses.
4. Periodic rental income, service charges, or user fees.
5. Periodic calculation of net income or loss.
6. Annual summary of 2-5 above.
7. Cumulative net income or loss.

A suggested revenue asset income history record follows. This record should supplement the individual capital asset record described in [Individual Capital Assets Records](#).

#### Replacement and Disposal of Revenue Assets

3.9.6.140 Accounting for a replacement or disposal depends on the transaction that takes place.

3.9.6.150 If a revenue asset is traded-in for a similar asset, the gain on the old asset should be accounted for by reducing the cost of the new asset. However, if the trade-in results in a loss on the old asset, the loss should be recognized in the current period. For disposal of revenue assets (other than a trade-in) outside of the government, gains and losses should be recognized in the current period. If an asset is transferred to/from another fund, the transaction should be recorded at book value with no gain or loss recognized.

3.9.6.160 The individual asset records should reflect the same information as the accounting records.



# BARS GAAP Manual

## REVENUE ASSET INCOME HISTORY

Asset Name \_\_\_\_\_

Page No. \_\_\_\_\_

ID No. \_\_\_\_\_

Year/ Month	Fuel		Oil		Repairs							Special Operator	Total Cost	Rental Income	Income Loss	
	Qty	\$	Qty	\$	Parts	Labor	Misc.	Tires	Ins.	Other	Dep.					
Year/ Month	Units of Operations	Cost Per Unit	Year-to-Date Income/Loss	PRIOR YEARS					Total Cost	Rental Income	Net Income (Loss)					
				Units of Operation	Cost Per Unit											

## Loans

### 3.9 Interfund Activities

#### 3.9.1 Loans

3.9.1.10 This section does not attempt to determine which moneys of a local government may or may not be available for interfund lending, since the special character of some moneys involves commitments and restrictions which would require individual consideration. As a rule of thumb, however, it may be considered permissible to make interfund loans of those moneys which are clearly inactive or in excess of anticipated cash needs throughout the duration of the loan **and** legally available for investment.

3.9.1.20 The minimum acceptable procedures for making and accounting for interfund loans are as follows:

1. The legislative body of a local government must, by ordinance or resolution, approve all interfund loans, indicating the lending and borrowing funds, and provide in the authorization a planned schedule of repayment of the loan principal as well as setting a reasonable rate of interest (based on the external rate available to the local government) to be paid to the lending fund. The planned schedule of repayment should specify the due date(s) of payment(s) needed to repay the principal and interest on the loan.
2. Interest should be charged in all cases, unless:
  - a. The borrowing fund has no other source of revenue other than the lending fund; or
  - b. The borrowing fund is normally funded by the lending fund.
3. The borrowing fund must anticipate sufficient revenues to be able over the period of the loan to make the specified principal and interest payments as required in the authorizing ordinance or resolution.
4. The loan status should be reviewed annually by the legislative body at any open public meeting.
5. The term of the loan may continue over a period of more than one year, but must be “temporary” in the sense that no permanent diversion of the lending fund results from the failure to repay by the borrowing fund. A loan that continues longer than three years will be scrutinized for a permanent diversion of moneys. (Note: these restrictions and limitations do not apply to those funds which are legally permitted to support one another through appropriations, transfers, advances, etc.)
6. Appropriate accounting records should be maintained to reflect the balances of loans in every fund affected by such transactions.

3.9.1.30 No debt instrument issued by one fund and held by another fund can be consider an investment. Such activity should be accounted for and reported as an interfund loan. Although the accounting treatment for such situations is not specified within a source of authoritative pronouncements, GAAP standards require transactions to be with an external party in order to classify them as other than interfund.

3.9.1.40 For reporting interfund loan transactions, see 3.9.8, [Interfund Activities Overview](#), paragraph 3.9.8.30.

## Overhead Cost Allocation

### 3.9 Interfund Activities

#### 3.9.5 Overhead Cost Allocation

3.9.5.10 **Overhead costs** consist of the costs of central services or support functions shared across departments. They may include accounting, human resources, payroll, information technology, janitorial services and others. Overhead costs may include not only the salaries, wages and benefits of the employees who work in these departments, but the utilities, supplies, information technology, building maintenance and other costs that support these employees. Typically, such services are initially paid through the general fund or an internal service fund and charged back to the departments and programs that directly benefited from them. The cost allocation process must be guided by an **overhead cost allocation plan** that describes how the organization will allocate costs reasonably and equitably across funds and departments and identifies the documentation required to support the charges.

#### Laws and requirements applicable to cost allocations

3.9.5.20 Under state law, government officials may charge a portion of the costs for their central overhead services to restricted funds, like utility funds or special revenue funds, only to the extent that each fund benefits from those services. Utilities charge user fees based on the cost of operating the utilities, and deposit those fees into utility operating accounts. Other restricted funds have dedicated revenue streams that can only be used for specific purposes. Governments must not allocate general government service costs, such as public safety, parks, law enforcement, community and economic development, or worker apprenticeship programs to the utilities or to other funds with restricted revenue sources that cannot pay for such charges.

3.9.5.30 RCW [43.09.210](#) indicates that when one fund is charging another, the fund being charged may only pay for the actual costs of the services it receives. Governments are expected to document those services and the costs of providing them to demonstrate these charges are fair, equitable and valid and reflect services provided.

3.9.5.40 RCW [43.09.210](#) states in part:

*All service rendered by...one department, public improvement, undertaking, institution and public service industry to another, shall be paid for at its true and full value by the department...receiving the same, and no department, public improvement, undertaking, institution or public service industry shall benefit in any financial manner whatever by an appropriation or fund made for the support of another . . . .*

3.9.5.50 Unlike all other funds, the general fund's revenues consist largely of unrestricted sales taxes and property taxes that can be used to support any fund or undertaking of the government,

including utilities or other restricted funds and their share of government-wide overhead costs. In contrast, a utility fund's revenues consist of user fees that are restricted to paying for the costs of operating the utility, including necessary capital and debt service costs. These user fees cannot be used to support other funds or general government activities that benefit the public at large. Utility funds and other funds with restricted revenue sources should only reimburse the general fund for costs incurred to render services to those funds. Overhead allocation plans that equitably share overhead costs facilitate compliance with the above statute.

3.9.5.60 Similar to RCW [43.09.210](#), RCW [35A.33.122](#), RCW [35A.34.205](#) and RCW [35.33.123](#) indicate that a city may only charge its utilities for the value of services provided by general government staff:

RCW [35A.33.122](#) Administration, oversight, or supervision of utility - Reimbursement from utility budget authorized . . . ***Whenever any code city apportions a percentage of the city manager's, administrator's, or supervisor's time, or the time of other management or general government staff, for administration, oversight, or supervision of a utility operated by the city, or to provide services to the utility, the utility budget may identify such services and budget for reimbursement of the city's current expense fund for the value of such services.***

3.9.5.70 **Consistent with state law, local government is not allowed to charge general government costs that benefit the public at large to the utilities or to other funds with restricted revenues that cannot pay for such costs.** General government costs that benefit the public at large, such as police, parks and recreation, community and economic development, worker apprenticeship programs, and other similar costs should not be charged to the utilities or to other funds with restricted funding sources that cannot be used for such expenditures. These costs do not benefit the utilities and may not benefit other funds with restricted revenue sources. In most instances, these costs must be charged to the general fund.

3.9.5.80 **Local governments should carefully consider whether to charge the costs associated with elected officials to the utilities or other funds with legally restricted revenues.** Ask the following question: "Do elected officials benefit the public at large in the form of citizen representation, or do they benefit the funds they oversee or legislate (municipal code, budget, etc.)?" If governments choose to allocate executive and legislative costs to the utilities or other funds with restricted revenues sources, they should exercise caution and should maintain documentation to show that those charges are equitable and reflect the cost of actual services provided to the utilities and other funds with restricted revenues.

If local governments decide to allocate council/commission/oversight board costs across funds, the use of agenda items as the basis to allocate *these* costs across funds likely results in a fairer and more equitable allocation than one based solely on budgeted expenditures. Cities, counties and other local governments are typically prohibited by OMB Circular A-87 attachment B, section 19 from allocating the costs of elected officials to federal grants.

**Methods of overhead allocation**

3.9.5.90 Local governments must allocate overhead costs fairly and equitably to those funds that benefit from overhead services. Charges to the benefiting funds must not exceed the cost and level of service that each fund receives.

**Sound practices for fairly and equitably allocating overhead costs to benefiting funds**

3.9.5.100 The **beneficiary pays** principle provides a foundation for cost allocation. Under this principle, the extent to which a support service provides a benefit to a fund/department, and the cost of providing those benefits, guides how much of the cost is paid by the fund/department. To achieve equity, the overhead allocation process must be well designed. By using leading practices for allocating overhead, local governments ensure they charge their utilities and other funds fairly. Such practices for allocating overhead among funds are discussed in the federal OMB's Circular A-87 and its corresponding Implementation Guide, a study by the U.S. Government Accountability Office, and our performance audit on *Local Government Allocating Overhead Costs* published November 28, 2011.

3.9.5.110 Sound practices start with a written cost allocation plan. Written overhead allocation plans document why and how an organization allocates overhead costs. The sound practices identified by our performance audit for accurately and equitably allocating overhead costs are summarized in Exhibit 1. These practices and requirements apply to all overhead cost allocations, including those that are accomplished through the use of internal service funds.

3.9.5.120 Additional resources are available at the [Center for Government Innovation](#) and the [GFOA Best Practices](#).

**Exhibit 1****Sound practices and requirements for allocating overhead costs**

**1. Develop and maintain an overhead allocation plan that reflects decisions about which overhead costs will be allocated to which funds or departments and on what basis.**

A well-developed plan must:

- a. Include relevant, up-to-date information about overhead and how to allocate it equitably. It must describe each overhead cost center, which costs are allocable and which are not, and what allocation factors and data sources will be used to calculate the allocations. It must describe the decisions made and the rationale for those decisions. It must contain the calculations of overhead charges to each fund and department. Cities, counties and other local governments should update the plan annually.
- b. Use factors that equitably allocate central overhead costs to each fund or department. Allocation factors are used to allocate overhead costs to departments and funds that benefit from overhead services. Different factors are necessary to equitably allocate the various overhead costs. For example, square footage is an appropriate factor to allocate maintenance and janitorial costs. The number of transactions is an appropriate factor to allocate accounting costs. Good allocation factors result in each fund and department paying only for the overhead services it received. Local governments must ensure that allocation factors are based on current and accurate information. If estimates or budgeted figures are used, governments should adjust them to actual at least annually. Exhibit 2 shows appropriate allocation factors for common types of overhead costs.
- c. Allocate overhead to all benefitting funds and departments for overhead services received. If governments decide not to charge overhead to a particular fund or department, the general fund must absorb that fund or department's share of the costs. Excluding a fund or department from the calculation results in overcharges to all remaining funds and departments.
- d. Ensure that general government costs or questionable costs that do not clearly benefit the utilities (or other funds with legally restricted revenues) are charged entirely to the general fund. The primary purpose of general government programs is to serve the public at large. Charging such costs to the utilities or other funds with restricted revenue sources that cannot pay for such expenses is questionable because they do not support these funds. The costs of such programs are typically paid for by the general fund.

**2. Properly charge departments:**

- a. Charge departments and funds only after overhead services are provided. Overhead allocation plans allow a government to forecast the amount of overhead it will charge each department in a given year. Although costs can be charged quarterly, monthly or more frequently, they must *always* be charged after services are rendered. If the general fund charges overhead costs before services are rendered, it has borrowed money from other funds, and interfund loan rules must be followed ([Loans](#)).
- b. Charge departments and funds only for actual costs. If local governments charge departments and funds based on estimated overhead costs, they should reconcile and adjust those estimates to actual costs at least once a year. Similarly, OMB Circular A-87 requires such reconciliation and adjustment if estimated overhead costs have been allocated to federal grants.

**3. Maintain appropriate documentation** to support what overhead costs were charged to each department and fund, the amount of the charge and how it was determined. State law ([RCW 43.09.210](#)) says that when one fund charges another for services provided, the receiving fund should pay the full value of the services. Governments cannot demonstrate compliance with this law unless they maintain documentation that shows (1) the cost of each overhead cost center, (2) the level of service each provided to benefitting funds and departments and how it was determined, and (3) the amount charged to each fund and department.

**Exhibit 2**

**Sound allocation factors to equitably allocate overhead costs across multiple funds and departments**

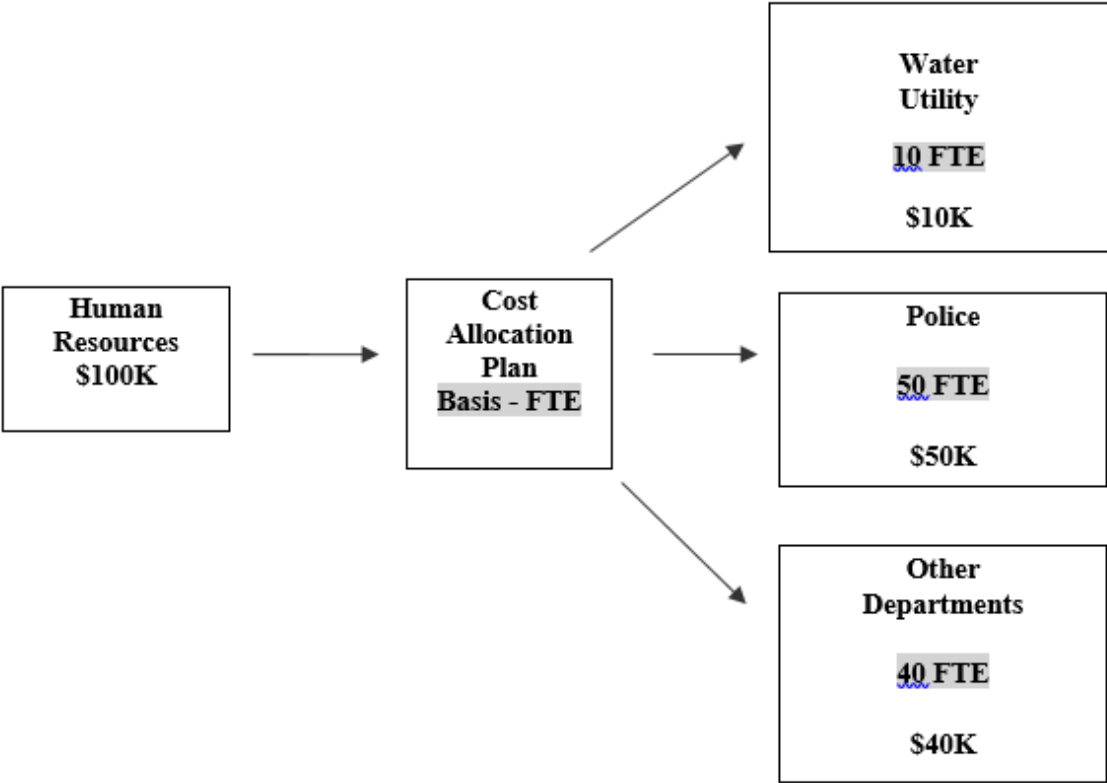
<b>Type of costs</b>	<b>Factors used to calculate overhead costs</b>
Maintenance and janitorial	Square footage
Electric and other externally provided utilities	Square footage
Accounting	Actual expenses or number of transactions
Budget	Actual expenses, budgeted expenses or number of staff (FTE) (a)
Payroll	Number of staff (FTE) or payroll warrants
Human resources	Number of staff (FTE)
IT services	Number of computers, servers, databases or ports (b)
Legal - indirect costs	Actual expenses or hours worked
Insurance	Number of staff (FTE), claims or loss history, square footage, property values insured, and risk factor
Accounts payable	Number of transactions (including vouchers or invoices)
Purchasing	Number of transactions (procurements)

Notes: If local governments are allocating other overhead costs not shown above, they must choose allocation factors that result in allocations that are fair, equitable and reflect the cost of services actually received by the benefiting funds.

(a) Using actual expenses, budgeted expenses, the number of staff - or a combination of the three - can all result in fair and equitable allocations. Governments must document why the approach they selected results in fair and equitable allocations that best reflect the cost of services actually received by the benefiting funds.

(b) Ports alone may not be the best basis for organizations that have moved to a wireless network model.





## Property Transfers

### 3.9 Interfund Activities

#### 3.9.2 Property Transfers

3.9.2.10 RCW [43.09.210](#) requires that, when property is transferred between funds of the same local government, it should be paid for at its full value by the fund which receives it. This requirement applies only if the capital assets were acquired with restricted resources. The following rules are intended to clarify the application of this statute and provide other guidance related to the property transfers:

**1.** When a local government wishes to acquire capital assets for an internal service fund, such as the Equipment Rental and Revolving Fund, the budgets of the contributing funds should specifically identify the item(s) of equipment to be purchased. Documentation of the equipment purchase must be adequate to show that the funds originally budgeted for a specific piece of equipment were actually used for the purchase of that item.

If the asset is purchased from the contributing fund resources, the transaction in the internal service fund should be accounted for as a capital contribution (DR Capital Asset/CR Capital Contributions).

When nonmonetary assets are contributed or transferred within the government, the assets must be recorded at book value. If governments transfer assets acquired with restricted resources, they must track their usage and disposal to assure that one fund is not benefitting from another.

The transfer of assets between the governmental fund and an internal service fund must be approved by the local government's legislative body.

**2.** The transfer of general capital assets (originally purchased with unrestricted resources) between two governmental funds of the same government should be accounted for merely as a change in location and/or custodian because the assets are not owned by the particular funds. Such transfers are not subject to budgetary control, but the assets should be declared surplus to the needs of the relinquishing fund and the transfer approved by the local government's legislative body. The [GASB Statement 48](#) enunciates the principle that the reported value of an asset can neither decrease or increase simply as the result of movement within the financial reporting entity. If the resources involved with the original purchase were restricted, the capital assets must be paid for by the receiving fund.

**3.** The transfer of assets between the governmental fund and an enterprise fund should be budgeted and accounted for as a sale and purchase of property. Proceeds of such sale should be deposited to the fund which originally paid for the item or to the general (current expense) fund at the discretion of the legislative body unless a particular statute requires another treatment. The capital asset should be reported in the recipient fund at the same net book value previously reported (i.e., historical cost less accumulated depreciation) in the government-wide statement of net position or proprietary funds.

## Reimbursements

### 3.9 Interfund Activities

#### 3.9.4 Reimbursements

3.9.4.10 For financial reporting purposes, all revenue, expenditures/expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions should be recognized when the transaction takes place. This means transactions should be presented at gross amounts unless the transaction is a reimbursement or else netting is specifically allowed by GAAP. Examples of allowable netting other than reimbursements include reinsurance activities for public entity risk pools ([GASB Statement 10](#)), pollution remediation obligation ([GASB Statement 49](#)) and some insurance recoveries ([GASB Statement 42](#)), etc.

#### Interfund Reimbursements

3.9.4.20 Reimbursements are repayments from the fund responsible for particular expenditures/expenses to the fund that initially paid for them. They are adjustments to correct the assignment of the expenditures/expenses. Reimbursements reduce expenditures/expenses in the fund that is reimbursed and move the expenditures/expenses to the fund that ultimately pays for it. The offsetting transaction should be posted on an object level.

3.9.4.30 There is one major exception to this definition: frequently, internal service funds are created to account for cost allocation and purchasing. In those funds, cost allocations and payments for pooled purchases are treated as revenues rather than reimbursements.

3.9.4.40 Examples of reimbursements include: correction of errors, internal allocation of overhead and payments received for others' share of pooled activities (payments for a convenience) such as the distribution of utility and telephone bills among the departments and funds after one department has paid the bill or the allocation of insurance premiums and payrolls among various departments and funds.

3.9.4.50 Reimbursements do not include recoveries for damages, whether from insurance or from private sources, grants, contractual payments, impact payments, or shared costs of providing services from the federal, state or local governments. Also, do not include expenditures which constitute direct cost of the activity like interfund taxes, utility payments, licenses, interest, etc.

#### Reimbursements to External Parties

3.9.4.60 Only corrections of error (including discounts/rebates awarded after the transactions were completed) would qualify as reimbursement and as such, they should be treated in similar manner like interfund reimbursements. If a local government has an ongoing relationship with an external entity (e.g., phone company, etc.) the amounts of reimbursements most likely would be included in the upcoming bill, so no adjusting entry is required. If the reimbursement is related to the expenditure/expense from the previous fiscal year and is immaterial, the amount of reimbursement

may be recorded as revenue. If it is material, the government should adjust its fund balance.

3.9.4.70 Examples of transactions that should not be accounted for as reimbursements include: state payments for public health services, expert witnesses, police salaries while attending criminal justice training; federal/state/local payments for the care and custody of prisoners and for election costs; local payments for data processing services, police/sheriff services, street maintenance, etc.; private payments for street repairs, culvert installations, weed control, demolition of dangerous property, subleases, etc.

3.9.4.80 For an overview of reporting interfund loan transactions, see the [Interfund Activities Overview](#), paragraph 3.9.8.30.

## Utility Surplus Transfers

### 3.9 Interfund Activities

#### 3.9.3 Utility Surplus Transfers

This guidance applies only to cities.

3.9.3.10 **Surplus** - The amount by which operating revenues exceeds operating expenses. When determining the available surplus in a proprietary fund, the following must first be deducted from the proprietary fund balance: capital asset replacement cost, future capital expansions and improvements and any legally restricted resources.

3.9.3.20 The surplus can be transferred to the general (current expense) fund under the following circumstances:

- Second class cities may transfer the excess income to the general (current expense) fund (RCW [35.23.535](#)).
- Cities under 20,000 (except first class) must transfer any surplus in utility funds to the general (current expense) fund unless the legislative body finds the money necessary for certain utility fund purpose (RCW [35.37.020](#)).

# Compliance

## Bond Coverage for Public Officials and Employees

### 3.10 Compliance

#### 3.10.3 Bond Coverage for Public Officials and Employees

3.10.3.10 These recommendations are intended to make local governments aware of possible bond restrictions and limitations. Any modifications made in bond coverage should be thoroughly reviewed with your legal counsel.

##### 3.10.3.20 Cover All Employees

Bond coverage should be provided for all employees. Since individual position bonds often are limited in coverage, the entity should consider an employee blanket bond.

##### 3.10.3.30 Increase Amounts of Coverage

Dollar limits of current bond coverage may be established by the statute; however, this minimum amount may not be enough. The bond coverage amounts should be reviewed to ensure that there is adequate coverage over loss. Costs associated with increased bond coverage are often minimal considering the protection that increased coverage provides.

A reasonable amount of bond coverage will vary with the size and financial activities of each local government. In determining the amount of coverage needed the insurance broker, legal counsel and other municipalities should be consulted when determining amount of coverage needed.

##### 3.10.3.40 Improve Type of Coverage

Consideration should be given to the value of the less restrictive coverage of faithful performance bonds. Honesty bonds often require evidence of the employee's dishonesty before recovery can be made. Faithful performance bonds only require proof that a loss has been incurred.

##### 3.10.3.50 Eliminate Restrictions on Coverage

Non-Cumulative Coverage - A common restriction in bond coverage is limiting any recovery to the face amount of the bond, regardless of the number of years the loss covered.

For example: Assume losses of \$10,000, \$20,000 and \$20,000 were incurred in three consecutive years, respectively, and a \$20,000 bond was in force for all three years. Non-cumulative coverage would limit the total bond recovery to \$20,000, thereby resulting in an uninsured loss of \$30,000.

The effect of the non-cumulative limitation should be considered when determining amounts of coverage.

Audit Costs - Sometimes an extensive audit is required in order to prove and document a loss. Audit costs are often not recoverable due to limitations in bond coverage. Specifically including audit costs in the bond coverage should be considered when establishing coverage.

Filing on Bond - Restrictions as to who can file for recovery on behalf of the bondholder should be reviewed. Such restrictions could prevent filing by the Attorney General's Office or other regulatory agency, resulting in additional legal costs to the local government.

### 3.10.3.60 **Bond Coverage does not Replace Errors and Omission Coverage**

A bond is not insurance. Although the bonding company may pay on a loss, it can seek to recover the amount it paid from the bonded official. To protect officials from such liability, local governments should consider carrying errors and omission insurance.

## County Fair Operations

### 3.10 Compliance

#### 3.10.1 County Fair Operations

This guidance applies only to counties.

##### 3.10.1.10 Management of Fair Operations

RCW [36.37.040](#) states in part:

The board of county commissioners may employ persons to assist in the management of fairs or by resolution designate a nonprofit corporation as the exclusive agency to operate and manage such fairs.

##### 3.10.1.20 Deposit of Funds Received by a County Fair Operation

All funds received by a county fair operation, such as allocated parimutuel funds, donations, and proceeds from the operation of the fair, must be properly deposited in the county treasury under the provisions of RCW [36.29.010](#) and RCW [36.29.020](#).

However, if the county has contracted with a nonprofit corporation as the exclusive agency to operate the county fair, funds would be received by the county in accordance with such contract and subject to audit under Chapter [43.09](#) RCW.

##### 3.10.1.30 Establishment of Fund to Operate Fair

At the option of the board of county commissioners, the county fair may be operated as a department within the general (current expense) fund or it may be operated as a separate County Fair Fund. If a fair fund is established and borrows from the general (current expense) fund, interfund loan procedures must be followed, except that no interest on the interfund loan needs to be charged.

Within the fund chosen for the operation of the fair, the board of county commissioners may authorize the county auditor to provide a revolving fund to be used by the fair officials for the conduct of the fair. The purpose of the revolving fund is to allow for immediate payment of premiums, casual labor and the many other items needed during the period the fair is being conducted without going through the formality of a warrant issue.

[Imprest, Petty Cash and Change Funds](#), contains the minimum requirements for the establishment and operation of a revolving fund. All those requirements apply except that a paid receipt or properly executed invoice voucher will not be required for premiums or prizes disbursed. A list of premium or prize winners, supplemented by entry records and certified by the fair board, will suffice to evidence expenditures for this purpose.



## Limitation of Indebtedness

### 3.10 Compliance

#### 3.10.5 Limitation of Indebtedness

3.10.5.10 The amount of debt a government may incur is limited by the State constitution (Article VIII, Section 6) and individual statutes. Debt limits are based on total taxable property value and vary by type of government. Each government should calculate its available debt capacity each time it is considering issuing additional debt.

3.10.5.20 The following information is needed to complete the calculation:

1. Total taxable property value
2. Total amount of general obligation debt; nonvoted and voted
3. Amount of assets available to pay debt

3.10.5.30 Use the appropriate government type spreadsheet in the [Calculation of Limitation of Indebtedness](#) to automatically perform the calculation. If the specific entity type is not available, use the general spreadsheet. With the proper adjustments, this spreadsheet can be used by any municipality to compute its debt limit. Calculate both the constitutional and statutory debt limits.

#### 3.10.5.40 What is the difference between the constitutional debt limit and the statutory debt limit?

Although state law (RCW [39.36.060](#)) allows cities and counties to exclude public loans from the statutory debt limit, these loans are **not** excluded from the constitutional limit (RCW [39.69.030](#)).

Example - Assume a city has taken out Public Works Trust Fund loans that are considered to be general obligation debt and equal to 1 percent of its assessed valuation. These loans are excluded from the statutory debt limit calculation (1.5 percent), but not from the constitutional debt limit calculation (also 1.5 percent). Its statutory margin of indebtedness without a vote would still be 1.5 percent. However, it could only issue an additional 0.5 percent of non-voted debt because to issue any more would exceed the constitutional limit.

Note that many government loans (including some of the Public Works Trust Fund loans) are not considered a *debt* because utility revenues will pay the debt service.**[1]** Therefore, they are outside both the statutory and constitutional debt limit calculations.

#### 3.10.5.50 What is *debt* for the purpose of calculating my debt limit?

Debt has been broadly interpreted to mean all borrowed money payable from taxes. This includes all **general obligation debt**, but not obligations payable from nontax revenue sources, such as revenue bonds. Also, obligations that can be discharged from funds currently available, such as warrants and accounts payable, are not considered *debt* for purposes of these statutes.

3.10.5.60 General obligation debt includes the following:

- General Obligation Bonds (Voted and Non-voted), including bond anticipation notes which are to be paid off with the proceeds of the bonds. Include interest only if it has matured and is due and payable.
- Deep discount debt (e.g., zero coupon bonds). Report the face amount of the bond less the unamortized portion of the discount.
- Registered warrants issued against the general (current expense) or other tax supported funds.
- Lines of Credit, to the extent they are drawn upon.
- Executory conditional sales or installment sales contracts pledging the full faith and credit of the taxing district. (RCW [39.30.010](#))
- Other obligations of the general or other tax supported funds, except for loan agreements with agencies of the state of Washington or the U.S.A. dated on or after April 3, 1987. (RCW [39.36.060](#) and RCW [39.69.020](#))
- Capital leases, principal only (RCW [35.42.200](#))

NOTE: Counties should not include the debt of junior taxing districts.

3.10.5.70 The following obligations do not constitute debt for debt limitation purposes:

- Outstanding warrants or checks (except for registered warrants)
- Accounts payable and other obligations that will be paid from funds currently available
- Obligations payable from special funds and solely from unanticipated service revenue
- Accrued interest that has not matured
- Refunded or revenue debt
- Special assessment debt
- Interfund loans
- Pension and OPEB obligations
- Pollution remediation liabilities
- Compensated absences
- Contingent liabilities (unless the contingency has been triggered and a liability is recognized)

3.10.5.80 **What is the difference between non-voted and voted debt?**

Non-voted debt is issued without a vote of the taxpayers. The debt service on non-voted debt is paid out of general government revenues. Voted debt is authorized by the taxpayers at an election. The debt service on voted debt is paid from excess property tax levies under RCW [84.52.056](#).

3.10.5.90 **What is the government's total taxable property value?**

It is the assessed value of taxable property in the county, city or town, ascertained by the last assessment for state or county purposes. Incorporated cities should also include the timber value as defined in RCW [84.33.035](#).

For purpose of calculating the debt limit, local governments should use the last assessed valuation of taxable property. The last assessed valuation is the valuation placed on the last completed and balanced tax rolls of the county preceding the date of contracting the debt (RCW [39.36.010](#), RCW [39.36.015](#) and RCW [84.52.080](#)).

**3.10.5.100 What assets are available to pay debt?**

Include all applicable cash and cash equivalents available for the payment of general obligations. This includes cash in debt service funds reserved for the payment of general obligation debt. Generally, cash outside of debt service funds is used to meet current obligations. Do not include cash or investments that are restricted for other than debt payment purposes. Do not include cash or investments that will be used to make interest payments during the initial months of the subsequent fiscal year prior to property tax collections. Also, do not include uncollected taxes from prior years except taxes specifically levied for debt redemption.

**3.10.5.110 What is the government's debt limit?**

See the table below for constitutional, general and entity specific limits. If the entity type is not listed, use the general (for all other taxing districts) limits. Also, review the RCW's for the specific entity type to identify any additional requirements.

<b>DEBT LIMITS</b>	<b>Non-Voted</b>	<b>Voted</b>
<u>Cities/Towns</u> additional for utilities additional for open space/facilities (RCW <a href="#">39.36.020</a> )  capital leases – principal (RCW <a href="#">35.42.200</a> )	1.50%	2.50% 2.50% 2.50%
<u>Counties</u> additional for counties that have assumed powers of metropolitan municipal corporation (Chapter <a href="#">36.56</a> RCW) (RCW <a href="#">39.36.020</a> )	1.50% 0.75%	2.50% 2.50%
Fire Districts (RCW <a href="#">52.16.061</a> , RCW <a href="#">52.16.080</a> )	0.375%	0.75%
Public Hospital Districts (RCW <a href="#">39.36.020</a> )	0.75%	2.50%
Library Districts (RCW <a href="#">27.12.222</a> )	0.10%	0.50%
Metropolitan Municipal Corporation (RCW <a href="#">35.58.450</a> )	0.75%	5%

<b>DEBT LIMITS</b>	<b>Non-Voted</b>	<b>Voted</b>
<u>Metropolitan Park Districts</u> (RCW <a href="#">35.61.100</a> , RCW <a href="#">35.61.110</a> )	0.25%	2.50%
<u>Ports – general</u> additional for airport capital improvements (RCW <a href="#">53.36.030</a> )	0.25% 0.125%	0.75% 0.375%
additional for foreign trade zone (RCW <a href="#">53.08.030</a> )		1.00%
additional for construction (RCW <a href="#">39.28.030</a> )	0.1875%	no change
Public Utility Districts – for property acquisition (RCW <a href="#">54.24.018</a> )	0.75%	
School Districts additional for capital outlay (RCW <a href="#">39.36.020</a> )	0.375%	2.50% 2.50%
<u>Transits</u> (RCW <a href="#">81.112.130</a> )	1.50%	5%
<u>Water/Sewer Districts</u> (RCW <a href="#">57.20.110</a> , RCW <a href="#">57.20.120</a> )	0.50%	2.50%
<u>Cemetery Districts</u> (RCW <a href="#">68.52.310</a> )	\$ .1125 per \$1,000	
General – for <u>all other taxing districts</u> (RCW <a href="#">39.36.020</a> )	0.375%	1.25%
<b>CONSTITUTIONAL DEBT LIMIT</b> Article VIII, Section 6		
General additional for utilities – Cities/Towns only additional for capital outlay – School Districts only	1.50%	5% 5% 5%

## **New Entity Creation or Dissolution Notification**

### **3.10 Compliance**

#### **3.10.6 New Entity Creation or Dissolution Notification**

**3.10.6.10 This requirement is in addition to the reporting requirements for counties contained in state law (RCW [36.96.090](#)).**

3.10.6.20 In recent years we have encountered public entities that were created by local governments through interlocal agreements or other arrangements (e.g., transportation benefit districts, community facility districts and any entities created by interlocal agreements). These entities were not audited timely or found themselves facing issues that may have been avoided if our Office had known about these entities. To avoid similar situations, we are requiring all local governments to continuously report to our Office information regarding the creation or dissolution of such entities.

3.10.6.30 This will allow our Office to provide timely advice and assistance in the initial stages of formation so entities understand state, local and federal requirements and foster public accountability and meet public expectations. Our Office will be able to assist the new entity in establishing the appropriate accounting and financial reporting model and determine if the entity requires a separate audit and, if it does, schedule it in a timely manner.

3.10.6.40 Similarly, the ongoing report regarding dissolution of entities would allow us to conduct timely final audits and provide us with opportunities to provide advice or referral regarding issues associated with dissolutions.

3.10.6.50 The [New Entity Creation](#) or [Dissolution Notification](#) form outlines the required details. The completed form should be submitted electronically to the local audit team. For questions regarding this process, please use the [HelpDesk](#) through our Online Services.

## Promotional Hosting

### 3.10 Compliance

#### 3.10.7 Promotional Hosting

This guidance applies only to port districts.

3.10.7.10 Promotional hosting means furnishing customary meals, refreshments, lodging, transportation or any combination of those items in connection with:

- business meetings,
- social gatherings, and
- ceremonies honoring persons or events, relating to the authorized business promotional activities of a port.

3.10.7.20 Hosting may also include reasonable, and customary entertainment and souvenirs of nominal value, all incidental to such events.

3.10.7.30 Promotional hosting must be explicitly related to promoting trade and industrial development.

3.10.7.40 RCW [53.36.120](#) authorizes expenditures for industrial development, trade promotion, and promotional hosting and requires that such expenditures be “. . . pursuant to specific budget items as approved by the port commission . . . .” RCW [53.36.130](#) limits funds for promotional hosting expenses to a formula based upon total gross operating revenues. RCW [53.36.140](#) requires the port commission to adopt written rules and regulations governing promotional hosting expenses, and RCW [53.36.150](#) directs the State Auditor to audit promotional hosting expenses and to promulgate appropriate rules and definitions as a part of its uniform system of accounts.

3.10.7.50 Promotional hosting expenses should include not only money spent directly by the port officers and employees, but also money spent by contractors or consultants when a contract explicitly or by clear implication calls for contractors or consultants to engage in promotional hosting with the funds they received from the port.

3.10.7.60 Ports may host a variety of people: private individuals, union officials, foreign or U.S. government dignitaries, officials from local, Washington and other states, officials from out-of-state or in-state ports. In all cases, to correctly categorize the incurred costs as promotional hosting expenses, the port must reasonably believe that a particular individual or a group of people could sufficiently influence trade or industrial development. The indiscriminate hosting of people who have no conceivable influence in that area is a violation of the statute.

3.10.7.70 Ports should also exercise a caution regarding hosted officials and the legality of accepting gifts and gratuities (e.g., the federal employees may be prohibited from doing that). Also representatives from state or local governments are often reimbursed for expenses incurred in

connection with such port events. However, if those costs are unreimbursable or when they are inseparable as practical matter from otherwise promotional activities, they can be treated correctly as appropriate promotional hosting expenditures. Above rule may also apply to the port's own officials or employees participating in the promotional event.

3.10.7.80 If a port official or employee is authorized by the port commissioners to make expenses for promotional hosting and if such hosting is done while in travel status, then that cost may be paid with moneys advanced from the *Advance Travel Expense Account*.





## Reporting Losses of Public Funds or Assets or Other Illegal Activity

### 3.10 Compliance

#### 3.10.2 Reporting Losses of Public Funds or Assets or Other Illegal Activity

3.10.2.10 Revised Code of Washington (RCW [43.09.185](#)) requires that all state agencies and local governments **immediately** notify the State Auditor's Office (SAO) in the event of a known or suspected loss of public funds or assets or other illegal activity.

3.10.2.20 Entities are encouraged to develop policies and procedures to implement this statute. This guidance should establish an individual responsible for informing managers and employees about these reporting requirements and ensuring the SAO is promptly informed of losses as required. These actions will also help to ensure that:

- Losses are minimized.
- Investigations and audits are not hampered.
- Improper settlements are not made with employees.
- Incorrect personnel actions are not taken.
- Employees are protected from false accusations.
- Bond claims are not jeopardized.

3.10.2.30 Entities should take the following actions when a loss of public funds or assets or other illegal activity is suspected or detected:

1. Report the loss to the [SAO](#) at or to the Audit Manager in your area, or his/her designee.
2. Protect the accounting records from loss or destruction. All original records related to the loss should be secured in a safe place, such as a vault, safe or other locked file cabinet, until the SAO has completed an audit.
3. Notify appropriate entity managers who are not involved in the loss. This may include the governing body, agency head or deputies, chief financial officer or internal auditor, depending upon the circumstances. Providing notification to your legal counsel may also be appropriate.
4. Do not enter into a restitution agreement with an employee prior to an audit to establish the amount of loss in the case.
5. Ensure that any personnel action is taken based on the employee not following entity policies and procedures, rather than for misappropriating public funds (civil versus criminal).
6. File a police report with the appropriate local or state law enforcement agency when advised to do so by the SAO.

3.10.2.40 Entities should **immediately** notify the appropriate local or state law enforcement agency

of the following:

- Suspected losses involving the health or safety of employees or property.
- Losses resulting from breaking and entering or other vandalism of property.

3.10.2.50 Entities **are not required** to report the following to the SAO:

- Normal and reasonable *over and short* situations from cash receipting operations. Record these transactions in the accounting system as miscellaneous income and expense, respectively, and monitor this activity by cashier for any unusual trends.
- Reasonable inventory shortages identified during a physical count. Record inventory adjustments in the accounting system.
- Breaking and entering or other vandalism of property.

3.10.2.60 Please do not attempt to correct the loss without reporting to the authorities identified above. In addition, RCW [43.09.260](#) requires written approval of the State Auditor and Attorney General before state agencies and local governments make any restitution agreement, compromise, or settlement of loss claims covered by RCW [43.09.185](#).

## Special Topics

### Transportation Benefit Districts (TBD)

#### 3.11 Special Topics

##### 3.11.1 Transportation Benefit Districts (TBD)

This guidance applies only to cities, counties and transportation benefit districts.

3.11.1.10 Transportation Benefit Districts (TBDs) are separate legal entities that are created by cities or counties under [Chapter 36.73 RCW](#) for the purpose of financing their transportation improvements. The governing body of the creating city/county serves also as the governing body of the district and the district's area of operation is limited to the boundaries of the creating city/county.

3.11.1.20 Any transportation improvement funded by the district must be owned by either the creating city or county or by the State or a participating port or transit district. Transportation improvement projects may also include the operation, preservation, and maintenance of facilities, so not all spending must result in an asset.

3.11.1.30 Generally, a TBDs only activity is to collect a non-voted car tab fee or a voter-approved sales tax and to remit the proceeds to the creating city/county. However, under [Chapter 36.73 RCW](#), TBDs may also collect voter-approved property taxes, impact fees and tolls. Districts may also issue bonds, accept grants and donations, and create LIDs.

3.11.1.40 Per [RCW 36.73.050](#), the ordinance that establishes the district must specify the functions and transportation improvements to be funded by the district. Some ordinances establishing TBDs identify projects with a definitive completion date and restrict allowable expenditures to specific costs; however, most ordinances provide for ongoing projects and any spending allowable for a street or road fund.

The [MRSC website](#) has an expanded discussion of the history of TBDs and a list of active districts.

**3.11.1.50 Each TBD should have its own MCAG number, submit its own annual report, and is subject to a separate audit in accordance with [Chapter 43.09 RCW](#).**

##### 3.11.1.60 Accounting

Per [RCW 36.73.020\(3\)](#), districts must use the creating city or county as their fiscal agent. Accordingly, the TBD should be accounted for in the city/county's general ledger and its transactions should be processed through the city/county's regular bank accounts and systems. There is no requirement for the city/county to open a separate bank account for the TBD.

Typically, all TBD revenues are immediately disbursed to the creating city/county as contract

expenditure. Under this typical model the TBDs would not have any direct expenditures or hold any cash or assets.

#### 3.11.1.70 Accounting for revenues and expenditures

The TBD's revenues should be accounted for as BARS code 3176000 for car tab fees and 3132100 for sales tax. If the TBD disburses these revenues to the city/county, it should record the payment as contract expenditure (54PPP40). The city/county would then record 3441000 for receipt of the contract revenues and record actual expenditures using appropriate expenditure codes (54PPPP0, 595PPP0, etc.). If the TBD expends funds directly, it would record expenditures using appropriate expenditure codes for the transaction. The city/county should ensure that there is no double counting of the same expenditures in the city/county and TBD's accounting system. Furthermore, the city/county's capital assets value should be adjusted to reflect improvements accounted for directly in the TBD.

#### Financial Reporting by Creating City/County

TBDs should be reported in the financial statements of their creating city/county as follows:

**3.11.1.80 Cash basis cities/counties.** The TBD should be reported in the city/county's annual report as a fiduciary fund. Also, the city/county as a treasurer should prepare a separate annual report for the TBD since the TBD is a separate legal entity. From the TBD's perspective, it reports as a general fund and the fund number should be 001.

**3.11.1.90 GAAP cities/counties.** For reporting purposes, TBDs are considered blended component units. This relationship should be disclosed in the notes to financial statements. Generally, the TBD is blended into the city/county fund that receives and spends the tax revenues (e.g., general fund, street fund, etc.). Blending into the city/county fund that receives and spends the TBD's revenues results in an **intra**-fund elimination to avoid double counting and reporting. The city/county should also report actual expenditures related to performed work (54PPPP0, 595PPP0, etc.). However, the city/county may choose to blend the TBD by reporting it as a separate special revenue fund of the city/county, in which case eliminations would only be made for the government-wide statements.

3.11.1.100 Also, the city/county as a treasurer should prepare a separate annual report for the TBD since the TBD is a separate legal entity. From the TBD's perspective, it reports as a general fund and the fund number should be 001.

#### 3.11.1.110 Compliance Requirements

General compliance requirements apply to TBD's, including the Open Public Meetings Act, public disclosure, expenditure audit and certification, conflict of interest, insurance/bonding requirements, limitation of indebtedness and authorized investments.

[RCW 36.73.160\(2\)](#) requires the district to issue an annual report describing the status of transportation improvements, expenditures, revenues and construction schedules. This requirement

is separate from, and in addition to, the BARS annual reporting requirements of [RCW 43.09.230](#).

#### 3.11.1.120 Assumption of TBDs by Cities and Counties

[Chapter 36.74 RCW](#) authorizes cities and counties assumption of existing TBDs. When the TBD ceases to exist as a separate legal entity, the district is still required to prepare the final annual report (financial statements and appropriate schedules) for the last (entire or partial) year of its existence. The district will be also subject to close-out audit. The assumption of TBDs by cities and counties require reporting to the State Auditor's Office through the [New Entity Creation or Dissolution Notification form](#). This form should be submitted electronically to your local audit team.

GAAP governments should treat this transaction as a transfer of operations described in [GASB Statement 69, Governments Combinations and Disposals of Governments Operations](#).

In both GAAP and cash basis entities, the final entry should be coded to account 3850000, *Special/Extraordinary Items*. This account should be used in both situations: (1) in the TBD (negative) when disposing the operations, and (2) in the city/county (positive) when receiving the money. It should not be coded as street expenditure in the TBD.

